

# The Federal Role in Educational Reform

Testimony before the Senate Budget Committee

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I am pleased to testify before you today on the appropriate role of the Federal government in supporting education within the United States. Virtually everybody in the country today recognizes the importance of education for individuals and society. For this reason, educational spending is frequently singled out for special treatment, even when there is consensus to reduce other spending and to move toward a balanced budget. But recognition of education's importance itself is insufficient to guide educational policy by the government. In fact, in my opinion much of the recent discussion and rhetoric is leading us in the wrong direction and will act only to increase the level of spending without ensuring the beneficial results that motivate the actions.

The major points I wish to make are:

- Improving our educational system is indeed vital to the interests of society, both enhancing the opportunities of individuals and strengthening our entire economy. But, our educational system, particularly at the elementary and secondary level, is not doing what we should expect of it.
- The Federal government has clear roles in ensuring opportunities for disadvantaged students and in providing evaluations and information to schools to improve performance, neither of which it is fulfilling to the maximum extent possible.
- The involvement of the Federal government in concert with the states in developing clear and challenging performance standards for students and in measuring progress toward them is important but will not by itself ensure success.
- Recent proposals to provide new tax subsidies to families of college students have little economic justification, because they represent pure transfers to middle income families with little hope of any substantial change in access to college or completion of college.

- The Federal government is failing in its responsibility to provide intellectual leadership in reforming our schools. Substituting a plan for developing new knowledge about organizational mechanisms and improvements in incentives within schools offers noticeably more hope than much of the current array of programs and proposals.

### *The Value of Education*

While it does not require lengthy discussion, it is important to underscore the importance of a high quality educational system. Our economy continues to have a voracious appetite for skilled workers. This appetite has pushed the wage premium for the median college educated worker (when compared to the median high school educated worker) from 40 percent in 1976 to 80 percent in the 1990s. These simple data underscore the importance of education for the productivity and wages of individuals. They also provide insights into one of the significant causes of the well-documented widening of the income distribution—the economy is simply moving away from less skilled workers.

While these facts are well-known, other important aspects are not. First, while the rewards to schooling have increased, almost precisely the same proportion of youth are dropping out of school, are completing high schooling, and are completing college today as 20 years ago. The amount of education measured by years of schooling has been stagnant. Second, we have devoted increasing amounts of resources in real terms to each student, but measured achievement has also remained stagnant over the period. Real (inflation-adjusted) spending per student for elementary and secondary schools increased by 70 percent between 1970 and 1990, yet student performance has been flat or, perhaps, falling. As the attached figure shows, real spending per pupil has actually been rising at a rapid pace (3½ percent per year) for an entire century. At least for the past quarter century, this is unmatched by student achievement; for example, the performance of

17-year-olds on the National Assessment of Educational Progress (NAEP) in reading, science, and math shows no improvement now when compared to the early 1970s. (See the attached figures on performance). Third, both the amount and the quality of the schooling of the population affects the overall health of the economy and the future well-being of society. Most economists are now convinced that the human capital of the workforce has powerful effects on the long term growth rates of the economy. In fact, my own recent estimates suggest that international differences in math and science skills have an amazingly strong relationship to international differences in growth rates. Fourth, while it is common to presume that the U.S. is protected in world competition by the breadth and quality of its educational system when compared to other nations, there is little justification for this presumption. Many other industrialized *and* industrializing nations now offer educational systems with breadth comparable to that in the U.S., and international examinations of math and science repeatedly show that high school students in a wide range of countries now outperform U.S. students. For example, the recently released data from the Third International Mathematics and Science Study (TIMSS) placed U.S. eighth graders in the middle of the pack for the 41 nations reporting scores.<sup>1</sup> Our higher education system does compete better with those in other countries, but we cannot count on that superiority to carry the day as the need for skilled workers becomes embedded ever-deeper in the economy.

These issues are set out to underscore the importance of attention to our Nation's schools and to investment in our youth, but they do not indicate what governmental policies may be appropriate. I do believe that they provide strong *prima facie* evidence that continuation and extension of the policies of the past are

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<sup>1</sup>U.S. Department of Education, *Pursuing Excellence: A study of U.S. eighth-grade mathematics and science teaching, learning, curriculum, and achievement in international context* (Washington, DC: National Center for Education Statistics, 1996).

unlikely to be successful. They also highlight the need to focus our policy attention so as to avoid wasting the opportunities that are currently available.

### *The Role of the Federal Government*

As we enter into a new budget season, it is appropriate to consider what the Federal government might do to enhance investments in human capital. For a variety of reasons, the Federal government has never had the largest role in education policy. States and localities are the primary locus of policy and support for schools at all levels. There is, nonetheless, a series of important things that are best done by the Federal government.

It is natural to look to the Federal government to deal with distributional issues, such as how extra services might be provided for students entering school with impoverished backgrounds. If localities or even states enter into these activities, an immediate incentive is created for higher income people to move away so as to avoid the costs of providing redistribution of resources. Moreover, the Federal government can act to smooth out some of the differences that may affect the levels of investment in youth from different states. Thus the Federal support of elementary and secondary education with Chapter 1 and special education funding and of higher education with Pell grant funding is consistent with this purpose.

Another area where the Federal government has a comparative advantage is the development of analysis and information about best educational practices, about the costs and benefits of various programs, and about successful interventions. Because it can collect data from across the nation and can disseminate the results of research and analysis most broadly, the Federal government should naturally take on a major role in such activities. Individual states have too little incentive in this area, because they see just the rewards to their own schools and not to the schools in other states. Past Federal spending has shown an emphasis on data collection, dissemination, and analysis, but there are serious questions about the effectiveness of these expenditures. I return to this point later.

A final area deserves attention. The idea of standards-led reform has been central to the Goals 2000

legislation and to much of the educational discussion of the past few years. In this legislation, the Federal government has identified its intention to work with states on developing meaningful standards. I firmly believe that establishing meaningful performance standards in key curricular areas is very important, as is providing continuing measurement of progress toward the standards. This legislation has, however, been very controversial, in large part because it goes far beyond simply developing student performance standards and measurement. The legislation does not stop at specifying “what” and enters into “how.” A major component of funding centers on incentives to develop programs and plans that satisfy general views of ways to proceed—i.e., how education should be conducted at in the states. Many states and localities are rightfully wary about the Federal government’s being directly involved in elementary and secondary education and entering into decisions about the resources, programs, and processes of schooling. To me, it is clear that the Federal government should work directly with the states to develop serious performance goals, but energies devoted to specifying from Washington how these standards are to be met are misdirected and misguided.

This does not mean that the Federal government cannot help the states. Even if the Federal government is successful in working with the states to develop standards, nothing ensures movement toward these standards. Simply announcing desirable goals, or even providing accurate measures of results, is unlikely to lead to their accomplishment. The actual education must be done in the states and localities and there are significant advantages to such decentralization, but the following sets out what the Federal government can best provide to help in reform.

### *What is Needed—Elementary and Secondary Education*

The story of results from efforts to reform public elementary and secondary schools is discouraging. The problems with our current educational system are much more concentrated in the elementary and secondary schools than in institutions of higher education, but these schools have not been very susceptible to

improvement. Dramatic increases in funding and commitment to public schools have had no discernible impact on student performance. This fact cannot be explained away by kids being harder to educate or being less prepared for school. Nor can it be explained away by increased emphasis on special education and handicapped children, although that has had some impact on overall costs.

There seems to be one simple but powerful explanation of the condition of education and the inability to achieve real reform despite substantial effort. *U.S. public schools are almost completely devoid of incentives for school personnel and teachers or for students to improve performance.* Few direct rewards exist for better student performance. In fact, little in the way of government programs or policies is linked to student performance. Thus, it should not be particularly surprising that added funds, added programmatic regulations, or fiscal incentives to provide improved schooling have not been very successful.

Whether or not to introduce various performance incentives lies behind some of the most heated policy debates of today. For example, should we introduce merit pay, private contracting for services, charter schools, or vouchers? Merit pay would reward individual teachers more if student performance is higher. Or, an extension is merit schools which would reward the entire school that does well. Private contracting would bring outside organizations into the public schools under an arrangement where their pay was dependent on how well their students perform. Charter schools, while varying widely, would permit new and innovative schools to be operated by nonstandard groups in an attempt to improve student performance by freeing up the organization and composition of schools. Choice and vouchers call for resources and rewards to be directly related to whether or not students want to attend a specific school.

Each of these generic reform notions has three elements in common. First, each has the appeal of relating rewards to performance, thus creating incentives to improve student outcomes. Second, each is politically difficult to institute. One clear element of performance incentives is that not everybody working in



the schools today will find these incentives to their liking. Specifically, there will be both winners and losers, and one would expect some significant changes in the composition of school teachers and personnel. This situation leads to concerted political efforts by those threatened by the new approaches to stop them. Third, there is great uncertainty about each, because we do not know the best way to design the specific contracts and arrangements and because there is the distinct possibility that some approaches could actually worsen the situation.

Resolving these issues and instituting alternative systems go far beyond the mandate for the Federal government and are the legitimate province of the states and localities.<sup>2</sup> That having been said, a sizable leadership and financial role remains for the Federal government. I believe that:

- The Federal government should actively encourage experimentation with alternative incentive schemes.<sup>3</sup> A substantial program of experimentation holds considerable promise, whereas continuation of the past ineffective policies holds little. It is quite unfortunate that past involvement in social experimentation by the Federal government has largely stopped—because there is a tendency instead to move directly into very costly policies with very little real information. Such experimentation should, however, center on incentive arrangements, as opposed to the more traditional focus on specific programs or processes of instruction.
- The Federal government should engage in much more aggressive evaluation of whatever performance

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<sup>2</sup>An extensive discussion of alternative incentive schemes is found in Eric A. Hanushek with others, *Making Schools Work: Improving Performance and Controlling Costs* (Brookings, 1994). That volume, which reports on the deliberations of a national panel of experts on the economics of education, provides a detailed evaluation of past failures of educational reform efforts.

<sup>3</sup>Encouragement could come either from Federally designed and run experiments or from Federal financial support for state-run experiments and evaluation.

incentive schemes are implemented around the country. Very little knowledge has accumulated about how to design effective incentive schemes, in part because evaluation is seldom a key component of any attempts to introduce such schemes. When tried, the focus of incentive schemes has been changing how education is delivered in specific settings and not so much on what general knowledge can be gained for application elsewhere.

- Evaluation of programs implies that the Federal government should also fund and support better measurement of student performance—both the operation of incentive schemes and the evaluation of their success depends on accurate data on outcomes.
- The operational programs funded by the Federal government should themselves involve both performance incentives and evaluation activities. It seems clear that some HeadStart programs, some compensatory programs under Title 1, and some special education programs are better than others in terms of short- and long-term outcomes for students. Yet, little if any information has accumulated about the design or operation of particularly effective programs. And, there is no real consideration of rewards or punishments for performance. A poorly run program may even be better positioned to get additional funds and support because its “needs” are greater.

The development of appropriate performance standards clearly fits into this program, because incentives and outcome measurement must be linked to what we hope to accomplish. On the other hand, as indicated before, the term 'standards' means many things. Some people tend to concentrate on the development of standards for the resources and inputs into education and on specification of the process for the conduct of education. These are not, in my opinion, things the Federal government can or should be doing. While many of these latter approaches give the appearance of ensuring equity and of establishing the

prerequisites for high student performance, the reality is quite different. The reality is the dismal failure of overall resource policies of the type we have been pursuing for the last quarter century and more. Attempts to uncover programs that are uniformly successful have also failed.

Dealing with the significant and important performance differences that exist by income, race, and social class should be an important objective of the Federal government. This point is made clear by the simple performance data shown previously. But too often the policy response to the existing needs has simply been to increase funding—without much consideration of what would make the programs better. In constant dollars, real spending on elementary and secondary education by the Federal government grew by 35 percent between FY90 and FY96.<sup>4</sup> There is little evidence that much in terms of student outcomes was achieved by this increase. Changes in Federal programs—either nationally or locally—are not closely related to evidence on performance. The common rhetoric about accountability is seldom translated into any direct incentives for high performance. Accountability typically relates primarily to meeting fiscal or programmatic objectives, as opposed to student outcome goals.

### ***What is Needed—Higher Education***

As indicated, U.S. higher education appears to do much better than elementary and secondary education. The quality of U.S. schools appears to pay off in terms of the training of innovative and productive scientists and engineers. It provides highly-skilled people that are readily demanded by industry and business firms. And customer satisfaction is high.<sup>5</sup> Nonetheless, a disproportionate share of Federal policy

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<sup>4</sup>U.S. Department of Education, *Federal Support for Education: Fiscal Years 1980 to 1996* (National Center for Education Statistics, 1996). In FY96 dollars, funding increased from \$26.2 billion to \$35.2 billion.

<sup>5</sup>Many people attribute the success of the higher education system to the considerable competition that

discussions about education has emphasized higher education.

Given the overall performance of U.S. higher education, the primary issue of both state and Federal policy toward higher education has been ensuring access to schools. Specifically, the most consistent focus has been providing a subsidy to the cost of higher education. States do this by directly providing subsidized institutions of higher education, while the Federal component has employed financial subsidies targeted at lower income students through Pell grants and at middle income students through direct or guaranteed loans.

A major component of both the last Presidential campaign and the public discussions of the forthcoming Federal budget appears to be an expansion of subsidies for college attendance. The lowest income groups would see a rise in the maximum amount of their Pell grants, while the middle income would see a substantial expansion in support through new tax deductions for tuition payments and college costs. The latter policy appears very misguided from an educational policy viewpoint, although it may have larger purely political appeal.

Public reports suggest that the Administration will propose that parents can deduct up to \$10,000 per year for college tuition if family income is below \$100,000. What are the likely effects of this or a similar program?

- It rewards just those who are already the winners, because the economy already confers very large income advantages on people completing college.
- Available evidence indicates that it can be expected to have little effect on attendance, thus making it close to a pure transfer program. Because it is a deduction from income, the value of the subsidy increases with income. It has little effect on low-income students, because low income families are

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exists among colleges and universities. While the subject of some debate, this might have something to say to the organization of elementary and secondary schools.

much more dependent on Pell grants. This program would be a straight middle-class transfer, essentially conferring a windfall gain on those already sending or planning to send their children to higher education.

- It introduces further distortions and complexities into the tax system, which by itself has undesirable consequences.
- There will be a tendency for this to encourage increases in tuitions and costs of higher education, if for no other reason than much of the aid currently given to students is strictly need-based and student financial needs would decrease under this proposal.
- Any linkage of support with student grades, as has been suggested at various times, is likely to distort college policies more than increase student effort and performance.

Access to higher education is an important issue. Low income families appear to be sensitive to the cost of higher education. Therefore, equity considerations support Pell grants and other targeted funding. But the magnitude of rewards for the typical college graduate implies that the costs can be readily repaid as long as they can be financed in some way during the schooling period—by family help, by loans, by other direct subsidies, or by work. Middle and upper income families already know this, even if the costs are a temporary burden. Surely parents of college students would like somebody else to help share the financial burden, but they are unlikely to forgo college if they have to pay for it themselves.

All of this suggests that the previous proposal of this administration for income-contingent loans is much more appealing. While there are a variety of approaches, the simplest would have the Federal government loan money to individuals for attending college and would add the appropriate amount onto the

payroll tax the individual subsequently pays. The idea of providing loans which would be subsequently repaid as a percentage of the student's future earnings has much better economic properties. First, there are some real inequities in the current financial aid system, because support is directly keyed to a student's parental income but only if the student is dependent on the parents. Therefore, if the student is independent of the parents, he or she looks very poor and in need of support, regardless of the reality of who pays the costs or the future benefits. Past changes in the treatment of independent students and proposed future changes face a real policy conundrum, because independent students represent a very heterogeneous group. Second, the immediate costs of schooling have been rising faster than incomes—and will probably continue to do so. Income-contingent loans would provide families a reasonable way of managing the costs. (I also see no reason to condition such loans on the incomes of parents as long as this is a simple loan and not a subsidy, but that is not an essential feature of such a plan). Third, it would lead to better decision making by prospective students, because they have to consider the costs and prospective benefits of higher education.

These programs of income-contingent loans have great appeal. Indeed, there even appears to be the possibility that some privately funded versions of programs like this may come into existence if existing legal restrictions are relaxed. Essentially, college is a good investment, and private firms will be willing to take an equity share (subject to some default risk).<sup>6</sup> To reiterate, simply saying that “education is good” does not justify a program of pure income transfers such as that being proposed. There are good and bad ways to achieve national educational objectives.

### *Conclusions*

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<sup>6</sup>Private plans face a variety of legal and practical problems related to bankruptcy, credible commitment of the individual, default risks, prohibitions against slavery, and the like. These give the Federal government a variety of inherent advantages in running such a program.

The entire message is easily summarized.

First, there is a vital national purpose to be served by improving and expanding our investment in education. Individuals and society as a whole will be better off. Moreover, some of our most pressing problems of poverty and lack of opportunity could be alleviated by improved education.

Second, not every educational investment is equally as good. In fact, much of past spending by government at all levels does not appear to have been very productive, and some of the proposals for the future offer little hope of improving matters.

Third, our most pressing educational problems are those at the elementary and secondary level. To deal with these, the Federal government should concentrate on providing significantly better information and analysis of alternative approaches along with actively participating in experimentation and design of incentive structures linked to student performance.

Fourth, the Federal government can and should provide active leadership in the development of performance standards for students and in the measurement of movement toward achieving these standards.

Fifth, the Federal government should take a central role in dealing the special problems faced by disadvantaged students, ensuring that better education is provided at the elementary and secondary level and that financial constraints on access are ameliorated. At the same time, it is necessary to strike a delicate balance. Program funds, say for HeadStart or for Title 1, should be linked to student performance. At the same time, it is necessary, once the appropriate performance incentives have been introduced, for the Federal government to step back and let the states and localities worry about how to improve performance. Funding should not be accompanied by Federal restrictions, rules, and pressures designed to specify “how” as opposed to “what” is done.

Sixth, the Federal government should be even more reticent to enter into proclamations and restrictions

that affect how state and local money is used. The Federal government does not know best. As should be clear, my view is that things are not working all that well now, but it is quite different from thinking that better policy can be made in Washington.

Seventh, proposals that are unrelated either to performance objectives or to concerns about disadvantaged groups should receive special scrutiny, at least if they are to be justified as programs aimed at improving our educational system. Tax deductions of the type currently being discussed fall in this latter category. Whatever their political merits, their educational impacts are likely to be exceedingly small. We should not squander the broad public support for improving education by putting our energies and funds into programs that will not lead to true improvements.