

REVOLUTION

at the Margins

**THE IMPACT
OF COMPETITION
ON URBAN
SCHOOL SYSTEMS**

Frederick M. Hess

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*The Impact of Competition
on Urban School Systems*

FREDERICK M. HESS

BROOKINGS INSTITUTION PRESS
Washington, D.C.

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1775 Massachusetts Avenue, N.W., Washington, D.C. 20036

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Library of Congress Cataloging-in-Publication data

Hess, Frederick M.

Revolution at the margins : the impact of competition on urban school systems / Frederick M. Hess.

p. cm.

Includes bibliographical references (p.) and index.

ISBN 0-8157-0208-6 (cloth : alk. paper)—

ISBN 0-8157-0209-4 (pbk. : alk. paper)

1. School choice—United States. 2. Educational change—United States.
3. Urban schools—United States. I. Title.

LB1027.9.H49 2002

2001007901

379.1'11'0973—dc21

CIP

9 8 7 6 5 4 3 2 1

The paper used in this publication meets minimum requirements of the American National Standard for Information Sciences—Permanence of Paper for Printed Library Materials: ANSI Z39.48-1992.

Typeset in Sabon

Composition by Stephen McDougal
Mechanicsville, Maryland

Printed by R. R. Donnelly and Sons
Harrisonburg, Virginia

*To my grandparents,
Fred and Bernice Hess
and
Stanley and Edythe Rosenzwog,
for all their sacrifices,
love, and support.*

Preface

THIS IS A BOOK about how urban school systems respond to the competition posed by school vouchers or charter schooling. My goal is not to provide a definitive work on the topic. Rather, I hope to encourage scholars and policymakers to reevaluate some of the facile presumptions regarding market-based education reform.

Given the likelihood that conventional public systems will educate a substantial majority of students for the foreseeable future, the way that choice-induced competition affects public schooling is likely to prove more significant for American education than are individual schools of choice. I focus on urban schooling because these systems particularly concern educators and policymakers. These systems are the most frequent targets for choice-based reform, the ones in which hopes for such reform are highest, and lie in the dense urban communities most likely to provide fruitful education marketplaces.

I have been interested in urban school systems for roughly ten years, which is about the same period of time that school voucher and charter school programs have existed in the United States. When I first became interested in urban schooling, while teaching high school social studies at Scotlandville Magnet High in East Baton Rouge Parish, Louisiana, school choice was not yet prominent in the national dialogue about urban schooling. Instead, attention centered on reform efforts that relied more heavily on new curricula, site-based management, professional development, and similar measures. These efforts failed to deliver the hoped-for results, in large part due to political dynamics (which I explore in an earlier work,

Spinning Wheels: The Politics of Urban School Reform). The resultant frustration fed the hunger for more radical reform and helped choice-based reform gain new visibility among those considering ways to reform urban schooling.

I conducted the research that led to *Spinning Wheels* at Harvard University under the mentoring of Paul E. Peterson and Richard F. Elmore. At the time, both of those eminent scholars were becoming increasingly active in the nation's school choice discourse, helping to make Harvard a hotbed of research and commentary on the topic. Pursuing research on urban school politics and reform in that environment highlighted for me just how divorced conversation regarding school choice was from the broader consideration of efforts to improve schooling. I was in the unusual position of conducting doctoral work in the Department of Government while teaching in the Graduate School of Education, a vantage point that afforded an unobstructed view of the bifurcation that characterized scholarship on educational policy in the 1990s. Choice-based reform became increasingly the province of economists, political scientists, and neoconservative policy advocates, while the community of education scholars tended to concentrate on questions of more immediate applicability to teaching, learning, assessment, and leadership in the public schools.

Although in the 1970s and 1980s the discussion of both types of reform had been primarily the province of the education community, now there was less overlap in the discourse. One consequence was a growing methodological, disciplinary, and normative chasm between the two communities. Today, the two topics tend to be addressed at different conferences and in different journals, in different ways, by different sets of scholars and policy advocates. I believe this state of affairs has had pernicious effects on both discourses.

I have three broad hopes for this work. First, I hope that a more nuanced consideration of the way education competition works in practice may help us approach questions of choice-based reform in a more measured and less polemical fashion. It strikes me that there is widespread confusion on both sides of the normative fence about how competition is likely to affect urban education. This confusion is rooted in a failure to fully comprehend the dynamics of market competition, the organizational nature of urban schooling, or how these will shape responses to competition. Thus one goal of the work is to clarify how competition is likely to play out in urban education and what this suggests for policymakers. At-

tention to these considerations promises to significantly increase the sophistication and usefulness of debates over school choice.

Such discussion may help to shift the parameters of the national discourse regarding choice-based school reform. In the past decade that discussion has tended to focus on how attending choice schools affects student performance and on concerns regarding the possible segregative consequences of choice-based reform. While these questions are certainly significant, the debate has tended to harden into two hostile camps, one in favor of school vouchers and the other opposed to them. More significantly, permitting the choice discourse to become increasingly detached from broader discussions regarding school improvement and school change has been a mistake. In fact, as I argue here, the competitive effects of school choice will be contingent on the kinds of change that are made or are not made in the larger educational system. In the absence of broader organizational and institutional changes, choice-driven competition is unlikely to deliver the results that its proponents desire.

Second, I seek to shed light on the ways in which urban system structure and practice hamper efforts to improve urban schooling. Examining how public school systems respond to market incentives provides a fruitful opportunity to more fully understand the implications of their organization and culture. Because so much consideration of urban schooling takes for granted the traditional milieu and public monopoly of school systems, it is possible to miss institutional and organizational characteristics that set urban school systems apart from many other organizations. The response of urban systems to competition may illuminate the constraints and patterns of behavior that are distinctive to school systems. I hope that bridging the gap between the conversation about choice-based reform and conversations over accountability, teacher training, and so on will enrich both sets of discussions.

Finally, I hope this work might contribute more broadly to understanding the promise that market-driven reform holds for the provision of public services. I hope that it might be particularly useful in illustrating the way that context will influence the effects of such reforms and what kinds of organizational change are necessary to realize the promise of market-driven reform.

This book is based on case studies conducted in three school districts that were at the center of the school choice debate during the 1990s. Milwaukee and Cleveland are the only two school districts to have been the

site of single-city public voucher programs; Edgewood, Texas, was deliberately targeted for the most ambitious private voucher effort launched to date. The case studies examine each of these three districts from the inception of their school choice program up through the conclusion of the 1998–99 school year or, in the case of the nascent Edgewood program, through the 1999–2000 school year. Why do the studies end at these points? First, quite simply, fieldwork inevitably has to come to an end. Second, the time frames were sufficient to permit analysis of the three quite different programs through varying stages of development. Third, by these dates I had accumulated so much material that I felt I had reached a point of diminishing returns.

Scholars of urban education tend to discuss urban school systems as part of a self-enclosed bubble. We look at them on their own terms and regard them as unique. In fact, urban school systems are not unique; they are organizations that tackle a difficult task (educating large numbers of disadvantaged children) under the heavy hand of often dysfunctional managerial, accountability, and regulatory systems. By examining how they respond to competitive forces, by seeing how they handle the kinds of threat that are routinely managed by other kinds of organizations, we can better understand the nature of these systems.

In that sense, this volume can be viewed as a companion and extension of my earlier book, *Spinning Wheels*. However, whereas that work explores the reasons that urban school systems routinely launch ambitious reforms, with often perverse consequences, here I focus more narrowly on whether the “cleansing” force of competition is alone sufficient to replace that churning with a more focused and effective model of governance.

Before proceeding, the reader is cautioned that this book is not a conventional work about choice-based school reform. I do not seek to weigh the merits of choice-based reform in any broad sense and do not attempt to make the case for or against choice-based school reform. Instead, I explicitly focus on one facet of the school choice debate, examining the impact of choice-based competition on urban school systems, seeking what light it may shed on the nature of urban schooling more generally. If the reader is interested in scholarship that examines school choice from a broader and more prescriptive perspective, I recommend concise and tightly argued works such as Jeffrey Henig’s *Rethinking School Choice*; Joseph Viteritti’s *Choosing Equality*; John Witte’s *The Market Approach to Education*; Mark Schneider, Paul Teske, and Melissa Marschall’s *Choosing Schools*; and Bryan Hassel’s *The Charter School Challenge*. The inter-

ested reader might also want to consider the collections edited by Paul E. Peterson and Bryan Hassel or Peterson and David Campbell; Stephen Sugarman and Frank Kemerer; Bruce Fuller and Richard Elmore; Hank Levin; and Robert Maranto, Scott Milliman, April Gresham, and myself.

I am deeply appreciative of a number of people and organizations for their assistance with this project. I am especially grateful to the educators, officials, activists, scholars, and other respondents in the three school districts who so generously shared with me their thoughts and often their personal files or records.

I owe a lasting debt to Dick Elmore, Gary King, and Paul E. Peterson for training me to be a scholar and for the long years of guidance, mentoring, and friendship they have provided. I would like to thank the Spencer Foundation, the National Academy of Education, the Olin Foundation, the Bradley Foundation, the WKBJ Foundation, the Harvard Program in Educational Policy and Governance, and the University of Virginia for providing the support that made this research possible. I owe particular thanks to Bruno Manno, whose comments one day in 1999 helped give rise to the analysis that structures this volume. I also thank David Baker, Glenn Beamer, Bill Boyd, John Brandl, Eric Bredo, Dave Breneman, Amy Bunger, Hal Burbach, Ted Fiske, John Gardner, Jay Greene, Jim Guthrie, Bryan Hassel, Jeffrey Henig, Paul Hill, Jennifer Hochschild, Caroline Hoxby, Tom Kane, Sunny Ladd, David Leal, Hank Levin, Tom Loveless, Robert Maranto, Ken Meier, Scott Milliman, George Mitchell, Terry Moe, Alex Molnar, Alan Parker, David Plank, Eric Rofes, Clarence Stone, Paul Teske, Sarah Turner, Sandra Vergari, Joseph Viteritti, Sammis White, Amber Winkler, John Witte, Pat Wolf, and Ken Wong for sharing thoughts and providing crucial assistance at various stages of this project. I am also grateful to Erika Austin, John Bertsch, Dana Brower, Christine Countryman, Deb DeMania, Michele Davis, Amy Dowis, Lee Hark, Nick Jabbour, Jim Lawson, Joleen Okun, Andy Oldham, Michelle Tolbert, and Rhonda Tooley for their assistance with researching, editing, and preparing the manuscript. Finally, Patrick McGuinn deserves special thanks for his role in conducting the Cleveland research and in helping to draft chapter 6.

Various portions of this work have been presented at annual meetings of the American Political Science Association, the American Educational Research Association, and the Association for Policy Analysis and Management; at conferences held at the Harvard University Kennedy School of Government and the Chicago Federal Reserve; and in talks delivered to

indulgent university and policy audiences. I would like to thank the colleagues and advocates who participated in these various forums for their many useful comments and suggestions.

As with all scholarship, this work is the accomplishment of many hands, including my own teachers, my colleagues, my students, and my sources in the locales studied. Of course, the fact that other individuals are largely responsible for whatever contribution this volume may make in no way implies that they bear any commensurate responsibility for my errors of fact, judgment, or interpretation. Any such errors are entirely mine.

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IN THE FALL OF 1998 I pulled into the parking lot outside the Milwaukee Public Schools administration building on West Vliet Street. I was visiting the site of the nation's leading experiment in school choice. Entering the administration building, I passed a rally of the Milwaukee Teachers Education Association (MTEA); its members were there to press for ratification of the new, long-delayed union contract. About 250 MTEA members were already inside the board meeting room as the nine school board members trickled in. Behind the board's seats hung a massive orange and black sunburst banner proclaiming "High Standards Start Here." At-large board member John Gardner spoke frequently on topics ranging from board members' health insurance to the structure of the union contract. Each comment was met with hissing by the predominantly union audience.

Although the scene was in many ways typical of an urban school system meeting, the debates and politics seemed remarkably energized and coherent. The unusual dynamic seemed somehow related to Milwaukee's school choice experiment, but it was not clear how or why. Puzzled, I decided to retrace events in Milwaukee and in two other urban school systems with large-scale choice programs, hoping that such a course would make clear what had happened and how school vouchers and charter schooling factored into it. This volume represents my efforts to explore and understand how such competition affects urban school systems.

The way in which such systems respond to choice-driven competition may reveal as much about urban schooling as about the effects of market

competition. Studies of schools and schooling generally treat education as a unique good, fostering the mistaken impression that education reformers can learn little from a broader understanding of the ways in which governance, administration, and culture affect organizations. By changing the milieu in which a school system operates, choice-based reform can illuminate behaviors and arrangements that normally remain unremarked and unexamined.

Competition and School Performance

For more than a decade, school choice has been a flash point in debates over education. The 1990s saw the launching of charter schools in more than thirty states, public voucher programs in two cities and the state of Florida, and private voucher programs in dozens of cities across the nation. At the most elemental level, choice-based reforms seek to reshape education by transforming parents and students from clients of a public service agency into consumers of a marketed product. Advocates hope that markets will prove especially effective in urban areas, where there is intense dissatisfaction with current options. The presence of a large number of schools and a population able to support a wide variety of schools render these systems especially well suited to choice arrangements. Traditionally, educators control most decisions in public schools, with the community's major recourse being the electoral process or appeals to elected officials. Under school choice, however, families express their preferences by selecting their school. Before schools can be places of education, they must first be able to attract and retain a clientele. Advocates hope and expect that markets will force educators to focus on meeting the demands of their prospective clients.

Perhaps the most commonly advanced argument for school choice is that the market will force public school systems to improve.¹ Market ad-

1. An important, though generally ignored, qualification is that, even under perfect competition, existing school choice plans will force schools to compete primarily on services rather than on price. See Besanko, Dranove, and Shanley (2000, p. 317) for an economic analysis of the implications of nonprice competition. The reason for this is that voucher, charter, and open enrollment plans all involve the government (or other voucher provider) sending a set amount of money to the chosen school in the name of the child. Families do not reap any savings if they use a provider. Since families will not be cost conscious, there is little incentive for producers to compete on cost. Instead, given that voucher or charter students come with a fixed amount of attached revenue, the incentive is to provide families with the most attractive education. Consequently, competition-inspired

vocates assume that forcing these school systems to compete for students will prompt public schools to improve in order to ensure their survival and success.² Schools that lose students will presumably try either to lure them back or to attract new students, while successful schools will expand and attract imitators.

In a 1977 discussion of voucher proposals, David Cohen and Eleanor Farr observed that "everyone agreed that vouchers would promote 'competition,' which would loosen up public school systems grown rigid with age, size, and professional power. The fear of losing students and revenues would move schools to improve curricula and increase responsiveness."³ The influential charter school advocate Ted Kolderie writes that for many advocates, "from the beginning, 'charter schools' has been about system-reform . . . a way for the state to cause the district system to improve."⁴ David Osborne, a leader of the push to reinvent government, asserts that "those who invented charter schools . . . wanted to improve all 88,000 public schools in the country by creating enough competition for money and students to force school systems to improve" and goes on to claim that "empirical studies have demonstrated that, indeed, competition works just as the reformers predicted."⁵ In fact the research provides little to support Osborne's strong claims.

benefits will take the form of higher-quality schools rather than lower-cost schools. If families were permitted to keep that part of a voucher that they did not use, then schools would be pressured to compete on price. The problem with introducing price competition, of course, is that some children—especially those from families in which money is tightest—would receive a cut-rate education. See Steuerle (2000) for a discussion of this issue and related concerns.

2. See Bradford and Shaviro (2000) for a straightforward explanation of the economic theory underlying the provision of public services through voucher programs. For an analysis of efficient provision of public goods, see Rosen (1999, pp. 61–254).

3. Cohen and Farrar (1977, pp. 72–73).

4. Kolderie (1995, p. 8).

5. David Osborne, "Healthy Competition," *New Republic*, October 4, 1999, pp. 31–33. Similar versions of this assertion are common. Milwaukee's mayor, John Norquist, a leading voucher advocate, argues that "most of us see each day how competition spurs achievement . . . choice challenges the complacency and stagnation of the public-school monopoly" (1998, p. 94). Jeanne Allen, president of the Center for Education Reform, predicts that under the ambitious Florida voucher program, "rather than see a mass exodus of children [from the public schools], we're going to see a dramatic improvement of the public schools in Florida." See Kenneth J. Cooper and Sue Anne Pressley, "Florida House Approves School Vouchers; Senate Votes Today," *Washington Post*, April 29, 1999, p. A2. In 1999 the Heritage Foundation educational policy expert Nina Shokraii Rees declared, "Though still in their infancy, school choice programs have improved overall student academic achievement in public schools. Evidently, competition is good for learning"

The market assumption is that competition rewards firms that efficiently deliver the goods and services that consumers desire. This dynamic encourages producers to continually improve their product and reduce costs. At the same time, it is understood that many factors can impede the smooth operation of the market. Consideration of these factors lies at the heart of most economic research.

Given the attention that economists devote to market imperfections, the question of how public schools respond to the market has received surprisingly little rigorous consideration. Education researchers have instead tended to focus on who uses choice options and how children fare in charter or voucher schools. Such inquiries invite the question of what happens to those who stay in traditional public schools. Since for the foreseeable future school choice programs are likely to serve only a small percentage of students, the question of those who remain in traditional public schools is crucial. Even if students in schools of choice benefit, the effects of choice-based reform could be negative if their public school peers are adversely affected. Conversely, even if students in choice programs do not benefit relative to their peers, such programs may constitute good policy if they compel public systems to become more effective.

Refining a Theory of Education Competition

The larger school choice debate has often paid little attention to schools as organizations.⁶ Researchers frequently ask whether school choice will improve student performance, better satisfy families, or produce pernicious side effects. They pay much less attention to how or why educational competition will actually operate or how it may be affected by the

(1999, p. 16). Ladner and Brouillette (2000, p. 9) note that choice proponents believe "that just as businesses respond to heightened levels of competition by making better products, [so] schools will respond to competition by delivering higher-quality education." Proponents generally echo the economist Milton Friedman, who first suggested that educational competition would stimulate "the development and improvement of all schools" (Friedman 1982, p. 93). However, sounding a more cautious tone, Finn, Manno, and Vanourek (2000, p. 202) note that "not everyone in the charter movement believes that these schools are meant to change the system. For some, their school . . . is a haven . . . intended only to serve a particular population of children for whom conventional schools are not working."

6. A large body of literature addresses the complexities of applying standard economic principles to the operations of industrial organizations. When the simple "theory of the firm" becomes more nuanced, stylized conceptions of competition become poor guides as to how real-world actors will compete. See Besanko, Dranove, and Shanley (2000); North (1990).

nature of schools and schooling. If choice-based reforms are to be promoted as a tool for widespread school improvement, a more sophisticated understanding of education markets is essential.⁷ The unqualified market claim that choice-based reforms, by unleashing competition, will radically and rapidly improve urban school systems is inaccurate, given the context and structure of these systems. However, framing the claim in this manner is disingenuous. What proponents of competition really suggest is that the discipline of the market will gradually lead to positive changes in monopolistic, rigid, public school bureaucracies.

Voucher proponents point, for instance, to increases in public school advertising and to the proliferation of innovative schools as evidence that competition compels school systems to operate like private sector firms. The changes that such proponents point to are real and often appear to be positive. However, advocates of education competition are likely mistaken when they interpret the distribution of videos and T-shirts and the launching of innovative programs as harbingers of a “businesslike” transformation that will enhance systemwide productivity and efficiency. In effect, they conflate a *publicity-oriented* competitive response with a *performance-oriented* competitive response, overlooking the deeper significance of this distinction.

School choice proponents may see this distinction as irrelevant or as a veiled attack on education competition. In fact the point is relevant and nonpartisan—and has important implications for the nature and consequences of education competition. To understand why this is so, it is necessary to consider the nature of urban public school systems, the market in which they compete, and the constraints under which they labor. This chapter briefly sketches the broader argument. The nature of the education marketplace and of urban school systems as competitors is discussed more fully in chapters 2 and 3.

Some proponents of choice may suggest that competitive systems have not had sufficient time to compel urban school bureaucracies to respond. In particular, such readers may point to the evidence of a growing response in Milwaukee over time. However, both theory and field research

7. The assumption is that school systems will begin to behave like businesses if sufficiently motivated. As a pamphlet written under the Workforce Investment Act to help organizations cope with vouchers explains, “An organization’s success in responding to [a voucher-based market] will depend largely on how well it can adapt to thinking and operations as a business.” See Maguire (2000, p. 19). That school systems may be unwilling or unable to behave in such a manner has received little systematic consideration.