

# Let the Dollars





# Follow the Child

By GROVER J. WHITEHURST

**W**ashington is at a crossroads on K–12 education policy. Policymakers can 1) continue down the path of top-down accountability; 2) devolve power to states and districts, thereby returning to the status quo of the mid-1990s; or 3) rethink the fundamentals, do something different, and empower parental choice.

The federal government's involvement in K–12 education has accelerated through the Clinton, Bush, and Obama administrations. The best evidence indicates that this substantially heightened federal role has had only modest impact on student achievement, far short of what had been hoped. It might be that further centralization would yield more benefits, but it is doubtful that more federal control is politically possible, and, in any case, any additional yield is uncertain.

The second option—devolving recently accumulated federal power to the states—underlies recent reauthorization proposals for the Elementary and Secondary Education Act (ESEA) that allow each state to establish its own accountability system and that require teeth only for the very lowest-performing schools. It is unclear to us how releasing states and school districts from federal accountability and granting them maximum flexibility is anything more than a return to the status quo. It is the regrettable consequence of that approach that motivated increased federal involvement in the first place.

## How the federal government can achieve equity

The Koret Task Force at the Hoover Institution (see sidebar, page 16), of which I am a member, believes that an evolved form of the ESEA that retains rigorous accountability is preferable to returning control of public schooling to local public-school monopolies and states, which will fall into old habits all too quickly. But we believe that the best interests of the nation require something other than either a return to the happy days of local school governance or evolutionary improvements to the type of top-down accountability found in No Child Left Behind.

We need a fundamentally new approach.

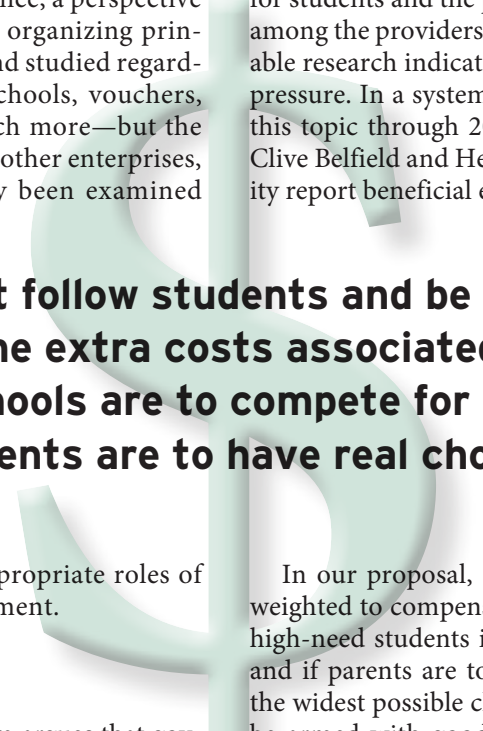
We propose to reform the nation's schools on the basis of two principles that have served the nation exceedingly well throughout its history: federalism and choice. The federal structure of our government offers an opportunity to specify the role of Washington strategically, to leverage what it clearly can do best, while allocating to states and locales what they are best suited to do.

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Our particular view of federalism is disciplined by the laws of economics and empirical experience, a perspective known as fiscal federalism. The second organizing principle is choice. Much has been written and studied regarding choice in education—on charter schools, vouchers, choice among district schools, and much more—but the idea, so powerful in our economy and in other enterprises, including higher education, has rarely been examined

on schools. We propose instead to create real competition for students and the public funding that accompanies them among the providers of K–12 education services. Considerable research indicates that schools respond to competitive pressure. In a systematic review of 41 empirical studies on this topic through 2002, Columbia University researchers Clive Belfield and Henry Levin found that “a sizable majority report beneficial effects of competition.”



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in the context of federalism and the appropriate roles of Washington and lower levels of government.

### **A New Framework**

What is fiscal federalism? Fiscal federalism argues that government services are most efficiently delivered if provided closest to the taxpayers or consumers receiving them, and that competition among local governments for residents and taxpayers will improve those services. In the context of public education, the challenge is to identify the areas of constraint for local providers of education services, determine which can be best addressed by state government, and assign the remainder to Washington.

But there is a fundamental flaw in fiscal federalism theory as it applies to education: the ability of taxpaying parents of school-age children to vote with their feet (leave school districts with which they are dissatisfied) is severely constrained for the low-income populations that are most likely to find themselves served by low-performing schools. This lack of geographical mobility for large segments of the population undermines the competitive pressure that low-performing schools and school districts would otherwise expect to face. This leaves those districts vulnerable to the interests of whoever is powerful at the local level, more often than not organizations that represent teachers who are employed by school districts, rather than to the influence of parents and taxpayers.

One way to correct the strong tendency of local school bureaucracies to cater more to adult than student interests is to intervene from above, the course of action taken by Washington over the last 15 years. We argue that this has been only weakly effective while imposing a heavy regulatory burden

In our proposal, funding must follow students and be weighted to compensate for the extra costs associated with high-need students if schools are to compete for students and if parents are to have real choice. Parents must have the widest possible choice of schools for their children and be armed with good information on the performance of schools. Informed choice that is accompanied by financial consequences for schools will create a marketplace for schooling that will evolve toward greater responsiveness to what parents want, will be more innovative, and will become more productive.

### **A Role for Washington**

The federal government currently funds a wide range of K–12 education initiatives (see Table 1). The task force has identified just four functions that are essential to its role in education: creating and disseminating information on school performance in each classroom and program effectiveness, including information on individual student performance; enforcing civil rights laws; providing financial support to high-need students; and enhancing competition among providers.

Information: The provision of information on the condition of education and on the results of education research is primarily a public service. In such situations, a serious free-rider problem exists: because it is impossible to prevent a class of consumers who have not paid for the information from consuming it, far too little evidence will be produced if it is not supported by an organization with the entire nation’s interests at heart. The free-rider problem is one reason that state and local authorities cannot be entrusted with the task of knowledge production. Furthermore, evidence does not merely need to be produced; it needs to be based



## Where the Federal Dollars Go (table 1)

*Most of the money allocated for K-12 education goes for compensatory and special education, but minor programs also absorb many millions.*

### U.S. Department of Education K-12 Expenditures, 2010

Program *	(In Millions)
Office of Elementary and Secondary Education State Fiscal Stabilization Fund, Recovery Act (included funding for Race to the Top and the Investing in Innovation Fund) †	\$48,408
College and Career Ready Students (Compensatory Education)	14,492
Special Education State Grants (Special Education)	12,319
Special Education, Recovery Act †	11,447
Compensatory Education for the Disadvantaged, Recovery Act †	9,948
Excellent Instructional Teams	3,505
Impact Aid	1,276
21st Century Community Learning Centers	1,166
English Learner Education	750
School Improvement Programs, Recovery Act †	595
School Turnaround Grants	546
Title I State Agency Programs	445
Effective Teaching and Learning: Literacy	413
Assessing Achievement	411
Expanding Educational Options	409
Successful, Safe, and Healthy Students	365
Special Education National Activities (Special Education)	268
Effective Teaching and Learning for a Well-Rounded Education	226
Effective Teaching and Learning: Science, Technology, Engineering, and Mathematics	181
Rural Education	175
Indian Student Education	127
Fund for the Improvement of Education	126
College Pathways and Accelerated Learning	103
Magnet Schools Assistance	100
Educational Technology State Grants	100
Impact Aid, Recovery Act †	81
Homeless Children and Youth Education	65
Innovation and Improvement, Recovery Act †	62
Comprehensive Centers	56
Native Hawaiian Student Education	34
Alaska Native Student Education	33
Supplemental Education Grants	18
Troops-To-Teachers	14
Promise Neighborhoods	10
Training and Advisory Services (Title IV, Civil Rights Act)	7
Women's Educational Equity	2

\* While the Department of Education administers programs in addition to those listed in the table above, this table attempts to capture only those programs targeted at K-12 education.

† These items were funded under the American Recovery and Reinvestment Act of 2009; this funding was to be spent over more than just the 2010 fiscal year.

Sources: <http://www2.ed.gov/about/overview/budget/budget11/summary/edlite-section3a.html>; <http://www.recovery.gov/Transparency/fundingoverview/Pages/contractsgrantsloans-details.aspx#Education>



on high-quality data. Gathering and auditing data are almost pure public services. Thus, it is easy to justify federal support for research, data gathering, and dissemination of information. Without valid information on the performance of students at each school relative to that of their peers across the country, the entire education enterprise flies blind, leaving parents, teachers, school managers, and policymakers with nothing more than intuition and consensus as the basis for making decisions.

**Civil Rights:** When state and local actions in education are discriminatory, the federal government should step in to enforce civil rights laws. Acts of unjust discrimination, such as those that would deny a student an educational experience for which the student is qualified based solely on race, gender, disability, or other protected status, are costly to society. Students who fail to be educated may need cash transfers as adults; they might take up crime or engage in other antisocial behaviors. Owing to mobility and society-wide redistribution, we all suffer in these cases. Thus, the federal government, and not merely state and local governments, has an obligation to curb discrimination.

**Compensatory Funding:** Regardless of whether the underlying cause is disability, lack of English proficiency, or poverty, high-need students are more expensive to educate than other students. Failure to provide additional resources can provide an incentive for other students to move to another school if they are able. The burden that the high-need student produces will thus be disproportionately borne by those who are too immobile to avoid it, most likely other high-need students. The federal government can counteract these inequities through cash transfers. The difficulty is figuring out the right financial supplement and the best mechanism for distributing it.

Title I of the ESEA and the Individuals with Disabilities Education Act (IDEA) are designed to disburse funds to states and school districts for the education of high-need students. Rather than the complicated federal schemes under which funds are currently disbursed to districts, funds should be attached to the student. Individual schools would receive federal funds based on student counts, with a weighting formula to adjust for factors such as the increased burden of educating high-need students and for regional differences in costs. Sometimes called “backpack funding,” weighted funding that follows the student has been shown to direct proportionally more funds to schools that serve needy students than traditional distribution schemes.

**Choice and Competition:** The federal government can and should restrict education monopolies and support school choice for parents and students. The current system, which relies on residential mobility to drive school districts to improve education services, does not work well enough to improve education outcomes or to ensure equity. Such a

system consigns the poor and immobile to inferior schools and leaves the control of schools in the hands of those who benefit most from the status quo. The simple feature of eliminating a default school assignment by the school district—thus requiring every parent to engage in school choice—eliminates socioeconomic differences in the likelihood that parents will shop for schools. Further, if parents could exercise school choice through web-based portals that highlight the important variables of school performance, socioeconomic differences in knowledge could be muted. Here, again, the federal government has a role to play, for example, by funding open competitions for designers and implementers of school-choice portals.

Market-based competition cannot prevail in public education unless the consumers of public education can choose where to be schooled. We propose that as a condition of the receipt of federal funds to support the education of individual students, schools be required to participate in an open enrollment process conducted by a state-sanctioned authority. Such a process would maximize the matches between school and student preferences. Unified open-enrollment systems that encompass as many choices as possible from the regular public, charter, private, and virtual school universes are essential to the expansion of choice and competition in K–12 education. These systems have to be designed so that all schools have the same time frame for applications and admission decisions, and so that they cannot be gamed by either schools or applying families.

The federal government has a legitimate role in overseeing the marketplace for schooling, including the architecture of parental choice systems. It is in the interest of society that the concentration of high-need students not increase in particular schools. Choice systems have to be carefully and explicitly designed to avoid students being sorted by race, economic background, and other conditions. Several options exist for ensuring that schools cannot discriminate against groups of students, including a lottery system (currently required in federal regulations for start-up charter schools), controlled choice (in which algorithms are used to maintain balanced enrollment), and a financial or fee supplement attached to students in protected classes.

## Charter Schools

To ensure a supply of schools from which families may choose, states should establish a system for authorizing charter schools that enables the charter sector to expand to meet demand; that provides funding under the same weighted formula that applies to all other publicly supported schools; and that offers charter schools access to capital commensurate with district school funding. Where there are charter schools, they are frequently the only alternative to regular public

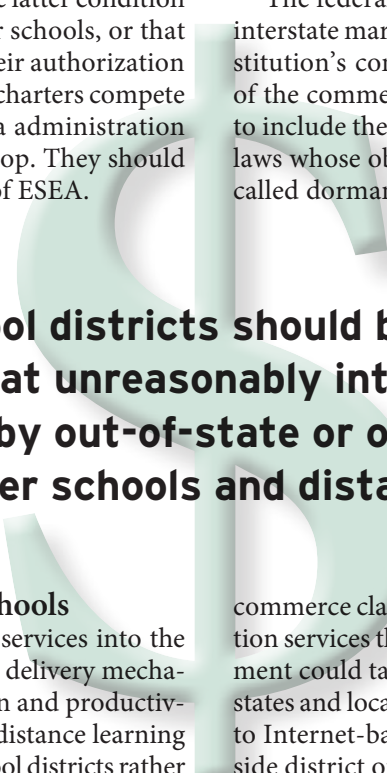


schools for low- and moderate-income families. Relative to statewide averages, charter schools tend to attract a disproportionate number of students eligible for free or reduced-price lunch as well as minority students, especially African Americans. Initial test scores of students at charter schools are usually well below those of the average public-school student in the state in which the charter school is located.

Research on the effectiveness of charter schools in raising student achievement presents a mixed picture. In general, charter schools that serve low-income and minority students in urban areas are doing a better job than their traditional public-school counterparts in raising student achievement, whereas that is not true of charter schools in suburban areas. Charter schools do require careful oversight through appropriately funded authorizing bodies, equitable funding via a backpack model, and the opportunity to grow based on their ability to attract students. Fulfilling the latter condition means that states that do not allow charter schools, or that arbitrarily cap their growth, or that turn their authorization over to the very school districts with which charters compete should reform their practices. The Obama administration included these conditions in Race to the Top. They should be incorporated into the reauthorization of ESEA.

that such schools are allowed to operate at all, they typically do so in the context of charter school laws. These laws include conditions such as a minimum number of hours of daily instruction that do not make sense for courses that are delivered over the Internet, can be taken at a student's own pace, and frequently define completion in terms of mastery rather than seat time. Further, there is currently no provision in any state's laws or at the federal level for students to attend cybercharter schools that are out of state in the sense of having no physical place of business within a state. States and school districts should be prohibited from establishing policies that unreasonably interfere with the provision of education services by out-of-state or out-of-district providers, including online charter schools and distance learning providers. They should, instead, make enrollment in such schools readily available.

The federal government has a long history of promoting interstate markets through its authority under the U.S. Constitution's commerce clause. As the judicial interpretation of the commerce clause has evolved over time, it has come to include the federal authority to nullify state or municipal laws whose object is local economic protectionism (the so-called dormant or hidden commerce clause). The dormant



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### **Cybercharters and Other Choice Schools**

Bringing the provision of K-12 education services into the 21st century by unfettering technology as a delivery mechanism will substantially enhance competition and productivity. Unfortunately, virtual courseware and distance learning providers often must make their sales to school districts rather than to individuals. School districts are likely to be reluctant customers because their operations are disrupted by distance learning. The result is that market demand is suppressed and investment in new technologies for K-12 education curtailed.

Much of the anticompetitive force of local school districts is exercised through requirements that link publicly supported education services to geographical constraints. A leading example is restrictions on cybercharter schools, i.e., schools that offer most or all of their instructional programs over the Internet and do not have brick-and-mortar physical locations where students assemble. To the extent

commerce clause could be applied to the provision of education services through the Internet, that is, the federal government could take legal action or support legal claims against states and local school districts that restrict or prohibit access to Internet-based education services that are provided outside district or state borders.

In cybereducation, as in many areas of school administration and performance, it is useful to compare K-12 with postsecondary education. In 2006, the most recent year for which national data are available, postsecondary institutions reported more than 12 million separate distance-learning course enrollments. Two-thirds of all postsecondary institutions offered distance learning courses, and there were more than 11,000 individual programs of study that could be completed entirely online. The contrasts with K-12 education are stark; there were only about 1 million distance-learning enrollments in K-12 in 2007.



Cybereducation for postsecondary students is a national rather than a local marketplace. A student can take a distance learning course from the University of Arizona, and the course credit can apply to graduation requirements at a large number of colleges and universities, without geographical restrictions. Further, if the student has qualified for federal student grants or loans, those are attached to the student, i.e., backpacked. The federal government is indifferent to distance learning

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versus place-based learning and to geographical boundaries in the provision of financial aid to high-need postsecondary students, whereas in K–12, that aid is funneled through local public-service monopolies that hold captive the students in their geographical catchment area. The federal government also recognizes regional and national accrediting bodies for higher education institutions. By simply shifting its policies on K–12 education to match those it has adopted for postsecondary education, the federal government could provide to parents something nearly every parent wants—the right and opportunity to choose where their child is schooled—and create a powerful engine for innovation and productivity.

Although the promise and potential of parental choice is nowhere more evident than in the realm of technology, the arguments for allowing students ready access to cyberschools extend to interdistrict school choice, charter schools, private schools, and vouchers as well. When combined with the availability of good information on school performance to parents and backpack funding, these options could create a dramatically different landscape for schooling than is currently available in the United States.

## Moving Forward

The approach we recommend places the federal government in a central role in providing information and compensatory funding and in promoting a competitive and information-rich marketplace for education services. Mechanisms we espouse, such as student-based funding, open enrollment systems, charter schools, and virtual education, are having some success in breaking open the current system, but they require very special circumstances at the state and local level. We understand that our proposals, if adopted, would represent a fundamental shift in the federal government's role in K–12 education. An attempt to reauthorize ESEA, IDEA, and Head Start to conform to our recommendations may well fail, in part because what we propose will appeal more to some states than to others. There is nothing wrong with such differences. Indeed, the federalism we espouse is built on the advantage that is conferred to citizens by having government policies and services determined as close to home as possible. There is a legislative way forward consistent with our proposal and federalism, one with a rich legislative history and experience of success at the federal level:

Let states opt out of the statutory and regulatory requirements of ESEA, IDEA, Head Start, and other relevant federal laws in exchange for creating a marketplace of informed choice and competition. Some states will find throwing off the federal yoke in exchange for providing maximum education choice for their citizens politically attractive and viable. Those states can serve as the laboratory for the proposals we



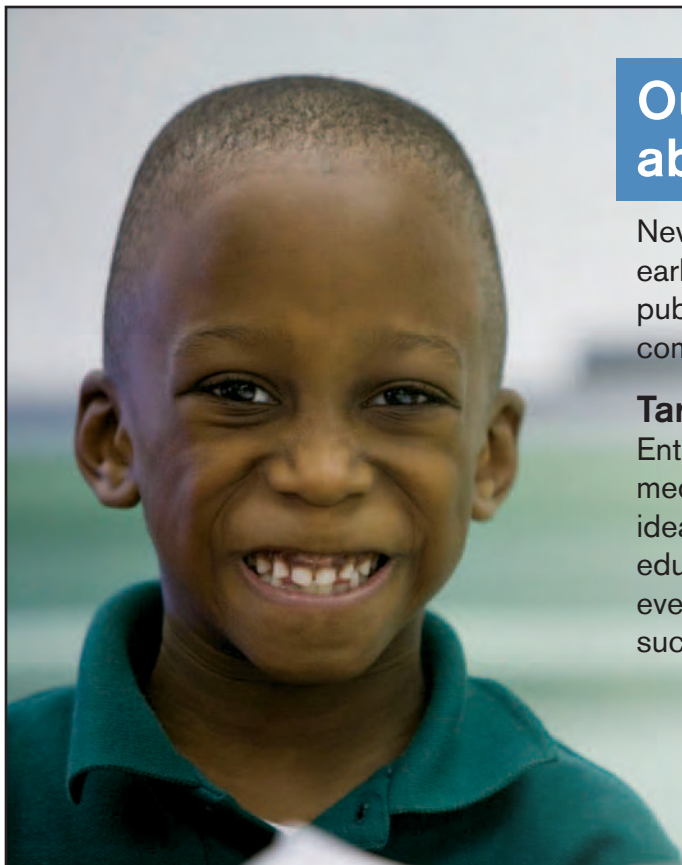
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have put forward. If these initiatives fail to advance student achievement, social equity, and education productivity, and if they lose the support of a state's electorate, they will be abandoned, and the state will return to the federal fold. If, instead, some states experience the success we think is likely, other states would find the risk of coming onboard manageable and, we think, face escalating demand from their citizens.

The education system clearly has vast consequences for this nation's economy, society, and world leadership. The federal government has a crucial role to play in protect-

ing and promoting precisely those national interests that lower levels of government cannot. We believe the most promising approach is to move decisionmaking closer to the consumers of K-12 public education by unleashing pent-up demand and empowering parents to choose schools for their children.

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