

School Choice Policies in Michigan: The Rules Matter

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It is a pleasure for us to be here today. This is precisely the type of audience that we had in mind when we did this work, and I am glad that we have this opportunity. I imagine that many people in this room have had more experience than the three of us with being surprised and bemused by the way your work and comments are portrayed in the media. We released the report yesterday at a news conference. The Detroit News headline: Expand Charters. I went home and found the Ann Arbor News. Its front page: Charter Schools Not Chartering New Course. It was the same report. They had to find Dan Quisenberry of the Michigan Association of Public School Academies, and say "Dan, what's wrong with these charter schools? Why can't they innovate?" Neither of these headlines reflects the message of our report. It could be worse because today's the New York Times headline reads: In Michigan, School Choice Weeds Out Costlier Students. That's not the problem. The story begins: Three professors from the University of Michigan... Not once, not twice, but three times is the University of Michigan referred to in this report. This is a problem.

School choice, of course, is a hotly contested partisan issue, and there is a powerful political instinct to spin a research report like this in one direction or another. Are charter schools good or are they bad? Should we expand them or we should we curtail them? These are the political terms of the debate, and we are here today because we want to change the terms of the political debate. We want to change the terms of the political debate away from the polarized question of whether school choice is good or bad to how can we design better policies to use choice to benefit all children in Michigan. We are hopeful that we can through this report try to find common ground among interested parties around a set of questions that deserve the attention of folks in this room where these kinds of refinements can be made. That is our goal and we leave it to you to see if it is possible.

Our first point: Michigan school choice policies are here. This school choice policy report is the first to look both at charter schools and inter-district choice. And our view is that these school policies are having both positive and negative effects on children in Michigan. There are important benefits: school choice increases options for children who are not fully served in the neighborhood schools and it is making the educators responsive to parental preferences. These are important benefits. But poorly designed elements of these policies are doing harm, especially to the least advantaged

children.

Our second point is that simply unleashing market forces without an appropriate administrative foundation will not make the public school system better; it could make it worse. We have used the term the rules, it is critical to refine these rules. The rules matter, that is to say when we use phrase rules, we are talking about the legislative guidelines that structure the operation of the policy. It's necessary to get the rules right because the rules structure the incentives; they structure the behavior of educators and families in important ways. We want to be clear, some folks hear the term and say "Ah! Regulations. You guys just call for more regulations." That is not our view. We have no interest in increasing regulations on schools in Michigan. Increasing the regulatory burden is not our intent. It is rather critical to appreciate that rules are essential. In one way or another, rules are there. If you go in front of a policeman or judge there are rules. If you go inside a school, there are rules. If you go to a state Legislature, there are rules. The rules govern the activity; you've got to have them. One way or the other they are there. There are important areas related to schools that govern these school choice policies in the area of funding, in the area of criteria for awarding and renewing charters, in the area of admissions in other places. The rules need to be clarified and strengthened in order to strengthen the benefits and minimize the costs.

One of our key points here relates to information. An efficient and effective market requires information. If parents are making choices based on insufficient information, it is difficult to get an efficient market. This is not just true in education, it's true for other markets. So if you buy a grocery item there will be a requirement to put on the box the ingredients. If you want to buy a stock, you want to know there is a common accounting standard used in company reporting because there are information problems here. These kinds of issues must be addressed.

Our third point: This is a market that must be examined not only in terms of the choosers but also the impacts on those children who are not active choosers because the policies have impacts on them as well. We are at a point now where 3 percent of the students are engaged in choice. It is important that we not focus on MEAP scores or whatever, but to be looking at the impact on the other 97 percent. And here we want to stress that choice is having very uneven effect on districts across Michigan. There are some districts where choice is focusing pressure in terms of losing students (enrollment pressures), and in many instances these are districts in need of improvement. Choice is a catalyst for change but the trajectory of change is not predetermined. Circumstances can become better or worse for children in these districts. It's essential that state policymakers develop policies that complement school choice in order to steer development in a positive direction.

Let me just summarize a few features of the so-called geography of choice. The substance of this aspect of the report begins at the second major section where there is

a quantitative presentation of participation rates and how they vary across districts. We don't have time to present all that, I'll give you a few representative figures and math to tell you what that work looks like.

As of 1998-99, charter schools were enrolling roughly 3 percent of K-12 schools in Michigan, inter-district choice another 1 percent. The growth rate of these is really quite rapid. In last couple of years charter schools are growing more rapidly than inter-district choice. One of the things that we looked at was where the charter schools are located, where the inter-district choice is taking place, what are the patterns of the participation across school districts. So one of the things that we find is that most charter schools are located in metropolitan areas as opposed to rural areas. About half of those are in the central cities and the other half in suburbs. There are a lot of ways of looking at this, and I think I'm not going to unless there is a call for this. You can see the tables in the report in section two. It's also the case that the charter schools are locating in districts that have higher than average concentrations of African American students. They are locating in the districts where the MEAP test scores tend to be lower than elsewhere. I will show you one way of representing this. We classified all the 555 school districts by their percent satisfactory scores on the 7th grade math MEAP test. Of course, there are many different MEAP scores. This is the one we came up with. So we stratified 555 - actually in this case we could only work only with 540 because not all the schools went up to the 7th grade - and worked with those districts and stratified the ones that had 0-40 percent, 40 to 60 percent, 80 percent satisfactory on to MEAP. These are our distribution of school districts and where the charter schools are locating across this. And this last figure is a location quotient. It is essentially the percentage of kids in charter schools in these districts as opposed to the statewide average. So if we have location quotient of one that implies that the rate of participation in those districts is same as the state as a whole. If you have a location quotient of two, that's twice the rate and so on. So as you can see, the charter schools are locating at a rate of roughly five times the rate in highest MEAP score districts. In the lowest MEAP score districts we have a much higher concentration of charter school participation.

You get the same kind of development with respect to African American students. We stratified districts in terms of their percentage African American. About 347 school districts have less than 1 percent African American. There are 28 districts that have greater than 32 percent of its students African American. But if you look at where the charter schools locating by this classification, we can see that they are disproportionately concentrating in these districts. So the African American districts have a location quotient of about 2.5. That is a high location quotient. It is on the order of five times the rate of locations in districts where there are 1- percent African American students.

Let me shift now because this report also looks at inter-district choice. One of the questions about inter-district choice is what districts are opting in? Which ones decide to accept nonresident students? What does that look like on a map? About half of the

districts in the state accept nonresident students. That means they are participating in the official state program. This is what it looks like on a map. (The maps can be found on the Web at <http://edtech.connect.msu.edu/policy>.) We have only reported through 1998. So we are looking at are districts that have participated. So there are a couple of things here: Rates of participation are both rural and urban. This looks differently from the maps for charter schools locations. Different rules create different outcomes. So for inter-district choice, it is a rural and urban phenomenon. Now, it is also true that high-income suburban districts are less likely to participate on average compared to other districts. Rapidly growing districts are having trouble just keeping up with their rapidly growing student population. They are less likely to opt in. If you look at the pattern, what does this look like? If you looked throughout the whole state what would it look like? Well, one measure is this: If you take every one of those one of those 15,000 students and you take a measure from their home district compared to the district that they went to through inter-district choice on the racial composition of their home district to the district they went to and this is what you get. ...I don't want to belabor this but just look at the first column. Students in inter-district choice are generally moving to districts with higher MEAP scores, with higher family income, lower concentrations of African American students. Look at the scores: 7th grade math MEAP scores higher, reading scores higher, graduate rates higher, drop-out rate lower, teacher-student ratio not much difference, salaries a little higher, district enrollment smaller. Notice that the districts the students are moving to are growing more rapidly independent of inter-district choice. So inter-district choice reinforces already existing patterns that originate in the residential housing market.

Finally, on average these school districts are about 12 percentage points lower in terms of African Americans. This is a surprisingly large number because out of those 15,000 students a lot of them are going to educating districts with no African American students at all. So there is something going on here, but this is inter-district choice. It is a different story, an important complementary story to that of charter schools. And that is all I am going to say. Now I will turn it over to Gary Sykes.

Gary Sykes, Professor, Educational Administration and Teacher Education

In the interest of allowing more time for questions, I'll just hit a few key points. Here are a couple questions that people have about school choice in Michigan. One of them is if you introduce choice policy into a public education system, will those policies serve to stimulate innovation? That is, create some kind of dynamic through which schools of choice or other schools will begin to develop innovative and improved practices. Certainly a lot of the arguments in favor of choice all around the country have lead with that argument. That is one of the reasons that advocates for choice have given. The view is that traditional public school systems tend to become hide-bound , resistant to change, overly bureaucratic, and under those condition innovation is unlikely to flourish. But if you create the opportunity for new schools to begin, those schools can become innovation leaders and beyond that other schools can then benefit from such schools if indeed they were pioneering new practices. So one

of the questions we asked was whether we see that development within Michigan and the choice policies. And we have a two-part answer to the question. The first part is that if by innovation you are referring to changes in structural practices at the core of the schooling, that is, what happens inside of classrooms between teachers and kids around issues of curriculum, teaching practices, assessment of student learning and so on, so far we see relatively little innovation on those terms occurring within the public school academies. If by innovation that is what is meant and presently we see little of it.

We believe there are good reasons why we are not seeing much innovation. I can talk about those if you like but I won't go into it at the moment. I would also hasten to add that in making this claim that we don't intend this as a criticism of charter schools. Where I rest the case is that our view is that the state incentives and policies that are supporting these schools are not particularly promoting innovation, and if the state wanted chartered schools to be innovation leaders they would have to take proactive steps to make more of that happen. So I want to make clear that when we make this observation about practice in charter schools we do not intend it as a criticism of these schools, rather we intend it as a comment on the kind of incentive structure that is shaping the character of instructional practice in these schools.

On another dimension, I think it's fair to say that the public school academies are in fact quite innovative and represent some very significant experiments in American education. This refers not to the instructional dimension of the schools, but to the governance and management dimension because that is another set of characteristics of schools that is important. I think in terms of governance and organization and management they are quite innovative. First of all, they are innovative by definition, that is to say charter schools have to meet a market test in order to survive. One of the principal forms of accountability in these schools is: Can they attract families to them? So that creates a new kind of accountability within public education, which is market-oriented accountability as opposed to bureaucratically oriented accountability. And that's quite powerful because that could lead to very different kinds of dynamics in schools that have to meet a market test. Traditional public schools have not had to meet that standard. Historically, American schools have been able to survive whether they attract kids or not. Think about the old days under the old school finance system. If a public school lost students to parochial schools within the district, it didn't lose budget, because the budget came from the state. Under the new system, the rules of the game have changed dramatically in that charter schools, in order to survive, have to attract students. That makes them in theory, at least, more responsive to the families that they are seeking to provide schooling for. That's quite important.

I think, though, that in some ways the most important and unexpected innovation with Michigan charter schools has been the rise of the education management organization as a key player in the lives of these schools. As most of you know when the Legislator created the public school academy law it did not provide capitalization or start up support for these schools. That put charter schools under unusual burdens to try to

cover all the costs of starting up and immediately moving into operation. Education management organizations, for-profit private companies, moved into that vacuum and began to provide a variety of services and access to loan and so on to these schools. So that today about 70 percent of the charter schools have contracts with private, for-profit companies such as Edison, or the Leona Group, or National Heritage Academies, or Mosaica, and others. So somewhat unexpectedly in Michigan the school choice movement has intersected with another powerful trend -- the privatization movement. This is a very interesting development. To put this matter bluntly and provocatively, the great question now in the state and across the country is this: Can the profit motive be harnessed for the improvement of schools? That's not a question that until a few a short years ago was prominent within public policy in American education. It is becoming so today. That is an extraordinary question: If the future will have Wall Street operating as a much more powerful player in the fate and life of American public schools. And it raises vitally important questions about what the consequences will be with the increasing activity of private, for-profit companies in running public schools. What do we know about these consequences? Right now we know very little. It is largely an open question. Our report does not come to a conclusion about whether this is a good or bad development. What we argue instead is that we must take much more careful note of it, study it more carefully because, in our view, it has the potential to work some good and it also has potential to work harm on schools, kids, families, and communities. The profit motive is a powerful and explosive force in American life.

Let me make one or two other points. There is a social consequence that is often raised in relation to the introduction of school choice in the public schools and that is, does choice increase social sorting typically by race and class within communities, among schools, and among families? Does school choice increase the social sorting in this way? On that score our conclusions are as follows: First of all, you have to see any affects that the choice policy has against the context of the extraordinary effects that residentially mobility patterns have already had on our society in separating families along the race and class lines. We are all familiar with residential mobility patterns for the last 25 years that have seen the flight from cities, suburbanization, and increasing divisions along race and class lines in where Americans are living. We can argue whether that is a good or bad thing but it is a fact. So our question is, to what extent does choice interact with this phenomenon that is already widespread and prevalent in our society. In our view, it accelerates the trend. In making this claim we're not arguing that charter school discriminate. They are, after all, enjoined by law from selecting their student populations. They must select their students by lottery. That is to say, they cannot discriminate in their admissions policies or their expulsion policies. However, one of the critical advantages that charter schools possess is that they can establish school programs that market to niche. By niche marketing you can create a program that by the very nature of the program the school offers you are going to attract a certain clientele. In that way you will shape the composition of your school.

So, for example, to take an obvious kind of a niche market, if you open an African-centered public school academy in an inner city, the likelihood is that you will draw predominately African American families to such a school by the very nature of the mission, curriculum, programming the school offers. So we are seeing many of the charter schools in Michigan creating various kinds of market niches to establish themselves, and that does have the effect, in our view, of increasing social sorting in many communities. That ought to be part of the public debate about the merits of school choice.

I will make only two more points. There is another question that enters this debate. Do charter schools cream? Do they draw away academically talented kids from public schools as a means of gaining advantage? A lot of the arguing about Michigan charter schools was based on exactly that point. There were fears that that was going to happen. There is no evidence of it. It doesn't appear to be happening. However, our report shows creaming is occurring. It's not occurring on academic ability, it's occurring on cost. That is to say, because of the way the charter school legislation was drawn, because of the incentives that are in place that influence the operation of charter schools, they have significant reasons to recruit into their schools low cost students. How does this phenomena manifest itself within the population of charter schools? We argue that it does in two ways. First of all, charter schools are predominantly elementary schools. The reason for that is that it costs a great deal more to educate high school kids than elementary kids. And it's very difficult given the current way of financing charter schools to open a charter high school and make it financially viable. So most of the charter operators have chosen to work in the elementary level, primarily due to cost considerations.

Secondly, with respect to the education of special education children, those children typically cost more to educate than regular education kids. And so we're seeing that in terms of cost comparisons there are much lower costs being allocated among charter schools to special needs children. Again, the creaming is on the basis of cost. Now we regard this development as potentially important because of the way the system currently structures these incentives. That means that if one effect is to encourage charter schools to recruit low-cost students over time that means that higher cost children are left in the regular public schools, which has the unintended consequence of raising the average cost for the public schools. That's a perverse incentive, that ought to be changed; that was not intended in the legislation but it is working out that way.

And finally, another powerfully important question is this one: If you introduce choice and competition into regular public schools, will competition stimulate all kinds of improvements on the part of those regular public schools? The question is this, What do we know about how public schools are responding to competition from charter school and inter-district transfers? Do we see according to the theory that when put

into a competitive market they will begin to become more responsive, more efficient, more effective in order to hold onto their market share of students? That's the question. One of the primary arguments for choice in education is not just that it's going to benefit the families who are making choices, but that the very dynamic of markets will raise all the boats, will improve all schools, because competition is a powerful motivating force in organizations to improve their performance. To make a long story short, what we see is a very mixed picture. We do see evidence in some districts that they are responding in a variety of ways to this competition and arguably these responses can be regarded as improvements. We also see that many districts are simply unaffected by the competition simply because they have no charter schools or they haven't opted to accept student transfers. So much of the state has been unaffected.

I conclude with what I think is one of the most critical points in this report. There is a small set of districts in Michigan that have been deeply affected by competition and these districts appear to us to be in a cycle of irreversible decline. These are districts that for whatever reason are not able to mobilize the capacity to compete. The withdrawal of dollars and students is so severe that what's happening in these districts is that they are simply losing their capacity to compete, but there are still kids going to those schools. Those children are being harmed by choice. That is not an argument to do away with choice. That is an argument for the state, for delegated agents of the state, to begin to identify and assist and support those districts that are failing not because we think that failing school districts should be helped, but because we think that the children going to schools in those districts also deserve good education, even if their parents have not chosen other options for them. I will stop there and David Plank will talk a bit about our recommendations.

David Plank, Professor, Educational Administration

Well, one of the advantages of having intelligent, eloquent colleagues is that they say most of what one has to say if one is the last speaker. So I'll be very brief. I want to make two points and then talk about the policy recommendations that are up on the overhead. The first point is that this really is a research report. The main intention that we have here today is to present our findings about how school choice is affecting Michigan school districts and the Michigan school system. A secondary purpose is to identify areas in which state policies regarding school choices can be improved. The second major point is, I think it is important to reiterate a point that David Arsen made at the outset, that when we talk about the rules we are not talking about loading up schools or other organizations with lots of new regulations. We are talking about the incentives, about the guidelines, that organize and structure the market for schooling and we think that those can be strengthened. And so in our report we identify five principles, five areas in which we believe there are problems in Michigan's current school choice policies and in which we believe improvements can be made.

The first principal is that fair competition requires a level playing field. Under the current choice policies, charter schools enjoy some significant advantages over traditional public schools and traditional public schools enjoy some significant advantages over charter schools. We think one of the desirable outcomes of public policy should be to remove those advantages and disadvantages and therefore level the playing field between different types of schools.

Second principal is that schools receive public funds that are accountable to the public. There are some ambiguities in the current accountability system governing charter schools. There are some weaknesses in the accountability system that governs traditional schools. We think that is an area where policymakers could profitably pay some attention and strengthen the policy framework that governs the education system.

Third, the market for schooling requires information in an increasingly competitive marketplace for schooling. It's essential that parents have good information about the choices that are available to their children, and educators have information about what works and what doesn't work in other schools so that they can improve their own practice. We think that policies can be strengthened in this area as well.

The fourth point is that policy incentive should be aligned with the public purposes. As both Gary and David have indicated, there are some perverse incentives that are embodied in Michigan's current school policy. One of those is the incentive for both charter schools and school districts to seek to attract low-cost, high-margin students. A second is the excessive attention both in charter schools and in traditional public schools given to MEAP scores as a single criterion for evaluating school quality. That has a variety of potentially negative consequences in both types of schools.

And the final principal is schooling for all children is a public responsibility. Our concern there is with the small number of districts that Gary spoke about, where choice is causing harm, is damaging the quality of education that substantial numbers of children receive. We believe that state has an affirmative obligation to put in place complementary policies that will protect the interests of those children even as their schools or school districts deteriorate. Again, as Gary said, we are not particularly concerned with protecting failing schools or school districts, but we are very concerned with protecting children who might be victimized by the failure of their schools or school districts. That gets us, I think, to 1 o'clock. So I will stop here and we'll open it up for questions.