

## Chapter 14

# Competitive Customer Choice

## Making Customers Powerful Through Choice and Competition

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***Competitive Customer Choice gives customers a choice of service providers and allows funding to follow the customer, forcing providers to compete for both their customers and their money.***

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..... **W**ith 209 schools and more than 100,000 students, Milwaukee has the nation's 12th largest school district. Though well funded, with relatively good facilities and well-paid teachers, it has long had many of the problems associated with large urban districts. Although its white and Asian students have performed as well as students elsewhere in the state, African Americans, Hispanics, and Native Americans—who make up about three of every four students in the district—have not.

“By any measure of academic achievement, MPS is a failing system,” former superintendent Howard Fuller declared soon after he was hired in 1991.

*Only 40 percent of our freshmen graduate from high school. The grade point average for high school students is D+. Our next report card will show yet another overall decline in standardized test scores.*

*The public knows we are failing. A 1990 MPS survey of Milwaukee parents and taxpayers showed that 72 percent believe their children would get a better education elsewhere. . . .*

*As an organization, we lack incentives for high performance and consequences for failure. Despite the unacceptable outcomes cited above, our schools continue to operate and our funding goes up. . . . Everyone is protected except the children.*



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A combination of bureaucratic gridlock and union power perpetuated the status quo. The Milwaukee Teachers' Education Association (MTEA) had enormous power to block change, because it could elect or defeat most school board candidates. The principals—who were theoretically responsible for creating good schools—could not even hire or fire teachers. In 12 years as a public school principal, former principal Allen Nuhlicek told *Education Week*, he had been allowed to hire only two of the teachers who worked for him—and then only because of a bureaucratic loophole.

By the late 1980s, inner-city parents had pushed and pushed and pushed again for improvement, with little success. A legislative drive to create a separate, minority district for the inner city had failed. In desperation, two African American Democratic state legislators, Representative Annette “Polly” Williams and Senator Gary George, introduced a bill to let up to 1 percent of the system's students take public vouchers to private, non-religious schools. They forged an unusual coalition with the Republican governor, Republican legislators, and maverick Democrats, and in 1990 they passed the nation's first voucher program. To qualify, students' family incomes had to be under 175 percent of the poverty line—\$23,000, at the time, for a family of four. The voucher was worth about \$2,500, roughly what the state gave districts per pupil.

The voucher program was small enough that it cost the district only \$3.8 million over its first three years, but it attracted enormous publicity. Williams's idea was to prod the public system to improve, by providing competition for it. “It's not that I think the public school system can't be changed, but I don't think we have to sacrifice the lives of our children while waiting on that system,” she said.

*Because the system just won't turn over and do right. The teachers' union will fight any kind of change that will reduce its power. So we shouldn't wait. After all, these people getting the big paychecks [teachers and administrators] have already moved their children out of the public schools. Yet they're having a fit because our parents are doing what they've already done—leaving.*

Frustrated by their inability to improve the schools, the MPS board hired an African American activist as superintendent in 1991. Howard Fuller, then director of the county Department of Health and Human Services, had made his name as a militant community leader in Milwaukee. He quickly proposed radical reinvention:

- Decentralizing key decisions to the schools.



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- Changing union contracts to give real hiring and firing authority to principals.
- Contracting with nonprofit organizations to run alternative schools.
- Aggressively expanding Milwaukee's limited public choice system, with dollars to follow children to their families' schools of choice.
- And closing failing schools and, in their place, contracting "with public and private groups to open schools free of current restrictions that impede effective management."

Over the next three years Fuller succeeded in pushing a bit of this through the board: some decentralization, some contracting with outside groups to run alternative schools, performance measurement and improvement plans in schools, and creation of a few Afrocentric immersion schools and other programs designed to help minority students. But the union blocked the rest of his agenda. When he proposed contracting with the Edison Project, a for-profit company, to manage a Milwaukee public school, the union erupted. Union leaders mobilized and won four of the five school board seats up for election in April 1995. (John Gardner, a reform activist, won the fifth, the only at-large seat on the nine-member board.) Two weeks later Fuller resigned in frustration, publicly blaming the union and its school board members for blocking his reform efforts.

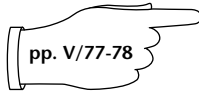
That spring, however, the state legislature passed a bill to expand the voucher program to 15,000 students. It was pushed through by a broad but frustrated reform coalition that included Milwaukee mayor John Norquist, a New Democrat; Republican and Democratic state legislators from the city; business leaders; religious leaders; private schools; and Milwaukee's minority communities and parents. Under the new law, parents could use the vouchers at secular or religious schools—adding 93 private schools to the eligibility list. The bill had been carefully crafted to avoid unconstitutionality: the voucher checks went to parents, not schools, and participating schools had to agree not to require any voucher student to participate in religious training, indoctrination, or education.

Suddenly the district stood to lose as much as \$48 million a year—a healthy chunk of its \$785 million budget. When the state opened enrollment in the new program in August, more than 5,000 students applied. Though the Wisconsin Supreme Court issued an injunction blocking the program's expansion in late August, the school board, prodded by Gardner and one other reformer, took the threat very seriously. From the moment it became clear that the expanded voucher bill would pass, it began working to compete for those 15,000 students:

- It opened seven new "Innovative Schools."



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- It expanded the district's limited public school choice system.
- It voted to close and reconstitute ten schools, despite protests from 300 outraged MTEA members.
- It passed what Gardner calls "the nation's most stringent graduation requirements." Beginning in 2004, graduating seniors will have to pass exams in math and oral and written communication, take a minimum number of courses in science and the social sciences, write and defend a research paper, and do at least one community service project.
- It established procedures to authorize charter schools: new public schools of choice, free of most regulations and red tape, that compete with existing schools for students and funds. (See Chapter Seventeen for an in-depth look at chartering.)
- It authorized the MPS's first charter school.
- It voted to dramatically expand three programs that had long waiting lists: early childhood education, before-and after-school child care, and alternative schools for students who did not do well in MPS schools.
- It added eight new schools or programs in other areas with waiting lists: language immersion, Montessori programs, and high school programs for the college bound.
- It embraced decentralization, giving schools more power to determine the grade levels they would offer, their calendars and schedules, the nature of their governance councils, and their curricula.
- It negotiated memoranda of understanding with the teachers' union authorizing exemptions to its labor contracts in seven schools, so those schools could hire teachers and teaching assistants without regard to seniority.
- Finally, it negotiated with the teachers' union two reforms related to teacher performance. The first kept new teachers on probation for two years, before they achieved tenure. The second created a teacher evaluation unit, jointly appointed by the board and the MTEA, that could terminate any teacher who performed poorly and did not demonstrably improve after intervention and help.

In March 1996, after almost a year of breakneck reform, Wisconsin Circuit Court judge Paul Higgenbothom ruled the 1995 voucher law unconstitutional. MPS principals, teachers, and union officials "breathed grateful sighs of fatigued relief," in Gardner's words. The decision was appealed, but for now, the pressure was off.



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Suddenly, the teacher's union changed its stance. It refused to approve any more memoranda of understanding—or even extend existing agreements when they expired. In August, it filed suit to block implementation of the board's charter school and contracting policies.

Faced with a hostile union, the board quit closing schools and creating Innovative Schools. It suspended the process for opening charter schools. It quit contracting for alternative programs. It slowed down its expansion of early childhood programs—missing its goal by more than 300 seats. And it pulled back its decentralization initiatives.

“Some efforts, that generate no internal opposition, have gone forward,” Gardner wrote in a 1997 article. “But the burst of entrepreneurial effort, the sudden coalescence of internal collaboration, the political will to respond, and the managerial impetus to implement, have effectively dissolved. Without the general environment and specific threat of losing students and losing money, revolutionary reform has all but died.”

In April 1997, the coalition got a third reformer, Bruce Thompson, elected to the board. The three managed to cobble together a majority for a few more contracted schools and a bit more decentralization. The reform coalition also pushed an amendment to the state's charter school law through the legislature, giving the city and two public universities the power to charter schools in Milwaukee.

But the real turning point came in 1998, when the Wisconsin Supreme Court ruled the voucher law constitutional and the U.S. Supreme Court declined to review the case. At about the same time, the reformers put together a slate of four new candidates to take on the four union-sponsored board members in the April 1999 election.

Suddenly, the union and its board members changed course again. “They got real scared about losing this election,” says Bruce Thompson. They were also worried about losing more students to vouchers. “And it looked like their suits against charter schools would lose.”

In January 1999 they negotiated a new union contract—six months early. “The teacher's union was afraid of losing control of the board, and they wanted to negotiate with a board they controlled,” says Gardner. In addition, “their own board members were asking them for concessions to protect themselves” at the polls.

The union gave up the seniority system for assigning teachers, allowing school governance councils (made up primarily of elected parents and teachers) and principals to interview and hire the teachers they wanted. It agreed to new language on school reconstitution, under which 50 percent of the teachers in a reconstituted school could be reassigned. And it settled its suits against the district's charter school, contracting, and reconstitution policies, on terms favorable to the reformers.



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But it was too late. Running on a unified “Compete Don’t Complain” platform, the reformers swept all seats. The *Milwaukee Journal Sentinel* called it “an electoral setback perhaps unprecedented for the Milwaukee Teachers’ Education Association” and “a sensational victory . . . for advocates of change in the Milwaukee Public Schools.”

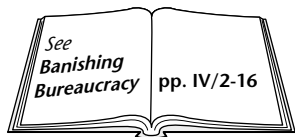
The new board quickly bought out the superintendent’s contract and hired the system’s most entrepreneurial principal to take his place. It voted to let six public schools become charter schools, while the city and the University of Wisconsin in Milwaukee chartered four more schools. It let white Milwaukee parents use open enrollment to send their kids to suburban public schools for the first time, and it contracted with two private schools to bring them into the MPS system as public schools (which gives them more money per student and allows free tuition for all their students). It also required the creation of school-based cost accounting, in preparation for a budget system in which dollars would follow children to their schools of choice. The tide had clearly turned.

“The momentum to create a system where parents’ choices for their children determine what schools are available and what schools provide—the momentum to strip the power away from the bureaucracy and give it to the parents—is like a mighty river now,” said David Riemer, Mayor Norquist’s director of administration and a key player in school reform. “I think we’ve reached a point where it’s so powerful it’s going to sweep away the old system.”

.....  
**THE POWER TO  
FORCE HARD  
DECISIONS**

As Milwaukee’s story demonstrates, once a monopoly has to compete for its customers and money, it will embrace changes it would never otherwise have entertained. Without that threat, “there is tremendous built-in resistance to giving up centralized power,” Bruce Thompson explains, “and tremendous opposition to real accountability for the schools.”

It is not that those who run the monopoly—in this case, the school board, the superintendent, and the central administration—are bad people. Most of the time, they want to do what is best for the children. But often, doing that is simply too risky. Ted Kolderie, the Minnesota school reformer who helped bring public school choice and charter schools to America, explains the dynamic very well.



*As they consider proposals for change, the superintendent, board, principal, union and teachers weigh the potential benefits to the kids against the risk of creating “internal stress.” They want to help the kids. But upsetting people might create controversy. It might produce a grievance. It might lose an election. It might cause a strike. It might damage a career.*

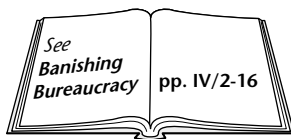


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So they don't make the changes.

In Milwaukee, John Gardner points out, many of the reforms he and his allies accomplished had been on the table for a decade or more. But without the threat of competition, the system found them too difficult to enact. "Reforms, including those with clear merit and without vigorous opposition, died because one of many parties—the board, superintendent, central administration, teachers' or administrators' union, principals, or teachers—could effectively veto them. Lining up all internal vested interests for the same thing, at the same time, generally proved more than anyone could do."

In contrast, choice and competition force decision makers to fight through the inertia and resistance and do what is best for their customers. "School choice is making MPS begin treating poor children of all races as valued customers, in large part because, for the first time, they are," says Gardner. What helps poor children "is the same thing that improves public education and government schools: clear, accountable choices and consequences for school districts that everyone understands—money following students to where they are best served."



Studies of other competitive choice systems support this argument. We wrote at length about the impact of competitive public school choice in Minnesota in *Banishing Bureaucracy*. Soon after that book was published, the Pioneer Institute studied the impact of interdistrict choice in Massachusetts. Its researchers, David J. Armor and Brett M. Peiser, conducted detailed surveys and interviews in 9 of the 10 Massachusetts school districts that had lost the most students to other districts. Their findings confirmed what common sense would suggest: those that lost the most students (5 to 6 percent) and felt the most financial pain made the most changes to improve their competitiveness; those that felt the least financial pain did nothing in response.

The three districts that lost 5 to 6 percent of their students made enough changes to bounce back, cutting their losses sharply. Ten of the 12 staff members interviewed in those districts "believed that the ultimate effects of choice were positive in that they led to increased resources and/or enhancements in specific program areas, especially the number of teachers and course offerings." None thought choice had a negative impact.

"I think the fact that a lot of kids left and continue to stay out had the effect of being an academic wake-up call to our faculty," said one administrator.

"We now offer full-day, part-day, and a two-year kindergarten," added another, from a second district. "Now we have a technology guru on staff who spends \$100,000 to \$200,000 a year putting technology in certain locations. It's been a big change, a big increase."

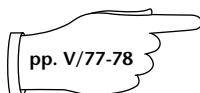
Initially "some people felt betrayed," said a third. "There was a lot of anger and disenchantment because . . . most of the ones who left weren't long-time residents [and] didn't have loyalty." Things began to change, however, when



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the district convened a retreat.

*Key stakeholders . . . got off-site for a couple of days with a good facilitator and identified a vision statement [and a] mission statement. . . . One of the common visions was a first-rate educational system, a first-rate educational plant. . . . The last three years we've averaged 11 percent increase in our operating budget. . . . And then the capital expenditure, an elementary school [had] a \$7 million rehab and addition . . . [and] a \$9 million rehab and addition to the middle-high school. So there has been a renaissance, a reawakening, a revitalization.*



A 1998 study of the impact of charter schools on public school districts reported similar effects. Conducted by doctoral candidate Eric Rofes for Policy Analysis for California Education, an independent research unit of the University of California-Berkeley, it looked at 25 school districts in eight states and the District of Columbia. Charter schools have performance contracts with their authorizing body, which may be a local school board, a state board of education, or in some states even a university. They are schools of choice, and their funding normally comes with the students who choose them, from the districts those students have left.

Rofes found that the districts that made the most changes were those in which charter schools had taken away a significant percentage of students and dollars. Within the first few years, six districts “responded energetically to the advent of charters and significantly altered their educational programs.” Another six exhibited what Rofes called a “moderate” response—including Boston, which responded by creating nine charter school–like “pilot schools,” and Grand Rapids, Michigan, which opened a new school focused on environmental education and had plans for additional thematic schools.

Overall, districts “which had experienced high levels of impact usually exhibited responses to charters, though not necessarily at a high level; districts which had experienced low levels of impact generally exhibited low levels of response or no response at all.” Perhaps the biggest factor motivating change was financial loss, but strong leadership was also critical.

The day after a charter was awarded in one Massachusetts town, the superintendent walked into an administrators’ meeting, tossed a copy of David Halberstam’s book *The Reckoning* on the table, and asked, “Who do you want to be—Honda or General Motors?”

*Our middle school, which is the school at which the charter school is*



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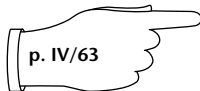
*aimed, was by any rational standard the least successful school in the district. . . . Its test scores were mediocre. . . . It had a faculty that was defensive and complacent.*

*The charter school was a wake-up call, like it or not. The fact is that the parents of more than 100 kids said, “We want our kids out.” . . . Charter schools served notice to everybody that complacency wasn’t an option. . . . With no competition, people show up to work, do what they consider to be their jobs, go home feeling tired, satisfied, fulfilled—you pick it. The unfortunate reality, perhaps, is that the competition forced us to look in a mirror and ask who we were, who we wanted to be, why these people had chosen to leave us, and what we were gonna do about it.*

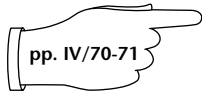
### Forcing Innovation, Improving Outcomes

Do the changes districts are making in response to competition lead to improved outcomes for students? That, after all, is one of the foremost reasons to create choice and charter schools. In Milwaukee and Massachusetts it’s too early to tell; statewide exams were first conducted in Massachusetts in 1998, and Milwaukee changed its exams in 1997. There is one place, however, that has enough data over enough years to support a very clear hypothesis: England. Beginning in 1988, the British government pushed through a series of reforms that created a system of competitive choice, in which at least 80 percent of the money in the system must be delegated to schools—and most of it follows children to the schools of their choice. Schools can opt out of their district if they find it too restrictive (and more than 1,100 have done so, including nearly 20 percent of all secondary schools). Schools control their own budgets. Hundreds of specialized alternative schools have been created, and new competitors, much like charter schools, can enter the market as well. The government measures progress carefully, through both national exams and qualitative inspections. It publishes the results in annual “performance tables” and inspection reports, both of which help parents compare schools.

Choice and competition have not been the only reforms in the British system, but they have been central. No one can prove a cause-and-effect relationship between competition and performance with scientific certainty, but on virtually every indicator, student achievement has soared since the reforms began. In 1986–87, less than 25 percent of 15-year-olds received satisfactory scores (A, B, or C) on the key exam (the General Certificate of Secondary Education). For more than a decade the percentage has steadily increased, until 46.3 percent did in 1997–98. (Meanwhile, real spending on secondary education has declined and teacher-student ratios have grown worse—though the percentage of time teach-



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ers actually teach has increased, thanks to pressures from reform.)

Education is compulsory in England to age 16. Since the reforms began, the participation of 16-to 18-year-olds in education has doubled, to roughly 50 percent. Student participation in higher education has increased from 17 percent in 1989–90 to more than 30 percent in 1997–98.

Test scores for younger children, though only published for the last few years, are also marching upward. Although these results don't prove anything, rigorous qualitative evaluations of each school, begun in 1993 and now required at least once every six years, suggest that the reforms are responsible. In its 1999 report, the Office of Standards in Education (OFSTED) reported that "the performance of teachers and pupils stands in sharp contrast to that of four years ago.

*Teachers are now teaching better, and pupils, as a consequence, are learning more. . . .*

*The statistics this year speak for themselves. In 1993/94 the quality of teaching was judged to be less than satisfactory in 25 percent, 30 percent, 19 percent and 17 percent of lessons in Key Stages 1, 2, 3 and 4 respectively. [Each stage is several grade levels.] This year the comparable figures have fallen to 8 percent, 8 percent, 10 percent and 7 percent. Teaching is now deemed to be good in over half of the lessons observed in each key stage. . . .*

*Evidence from the re-inspection of secondary schools shows that the overwhelming majority of schools are actively trying to raise standards, often in response to performance tables and OFSTED inspection. Seven in ten of the schools inspected in 1997/98 showed an upward trend in results since their previous inspection.*

"Nobody now questions the need to raise standards," OFSTED's Chief Inspector concluded.

*Fewer take refuge in socio-economic explanations of school failure. Most within the profession accept that the beliefs about education and teaching which have dominated practice for the last forty years must be, at the least, questioned. The culture is now less self-indulgent. We have a new and rigorous focus on what actually works.*

### **Beyond Education**

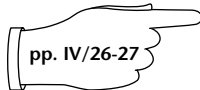
Competitive customer choice is beginning to transform more than just public education: it has had an impact in many other arenas as well. This approach



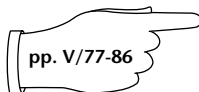
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has been used to provide child care, job training, adult education, higher education (Pell Grants and the G.I. Bill), services for alcohol and drug abusers, health care, and food stamps. Some of these programs use vouchers (or their modern equivalent, benefit cards that permit electronic payment), some reimburse providers for their services, and some simply develop a financial system that sends public money to the provider chosen by the citizen.

Sometimes the customer is unable to make the choice by himself or herself. Parents choose schools for children, for example, and sometimes social workers or therapists choose treatment for patients with mental or behavioral problems. In the mid-1980s, Minnesota consolidated a myriad of funding sources for alcohol and drug treatment, distributed the money to counties and Indian reservations, and let their assessment centers pick the best treatment providers, with the money following the client. Under the state's new Consolidated Chemical Dependency Treatment Fund, many clients received more appropriate treatment for their needs. Meanwhile, by forcing providers to compete and by using less in-hospital treatment, the state saved enough money that it could serve 33 percent more people.



Customer choice without competition is even more common. As we discuss in the introduction to Part III, customer choice makes sense in compliance work but is a weak agent of change in service systems. Milwaukee gave families a choice of different public schools in the 1970s, in an effort to promote racial integration, but it did not create a situation in which schools competed for students and dollars. During the next two decades, choice helped some students and parents, but it did little to force the district or its schools to change. It had no power to force the teachers' union to put students' interests above teachers'. It had no power to force school board members and school administrators to make tough, controversial decisions—like closing schools that performed poorly or firing language teachers who could not speak the language they were teaching. And it gave parents no power to force schools to give their children what they needed. If few parents chose a school because they thought it was unsafe or had poor teachers, the district still filled it up. Choice did not bring many consequences.



In this chapter we present four basic tools you can use to create a successful system of competitive customer choice. The first is a *competitive public choice system*, which encourages customers to choose between different public providers and lets public dollars follow customers to the providers. This is what Minnesota, Massachusetts, and many other states have done in public education. (Charter schools, which we discuss in Chapter 17, are one way to create more choices within such a system.) The second is a *voucher system* or *reimbursement program*, which gives designated customers the resources to purchase services themselves, from whomever they choose, or reimburses providers when customers choose them. This tool is different from the first

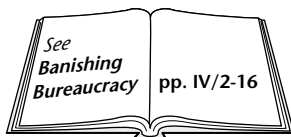


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primarily because it gives people access to private providers (although public providers can be included as well.) The third is a *customer information system*, which gives customers information about the quality and cost of each provider, so they can make informed decisions. And the fourth is a system of *brokers*—akin to real estate agents or stockbrokers in the private sector—who help customers sort through that information and make good choices.

These tools are not mutually exclusive; you could use all four together. Indeed, when you create a competitive public choice system or a voucher or reimbursement program, a customer information system is often indispensable, and in complex markets brokers are necessary as well. Because these tools are so often used together, most of the lessons in this chapter focus on the entire approach rather than on one tool.

**OVERCOMING  
POLITICAL  
HURDLES**



The single biggest obstacle to competitive choice is politics. By definition, creating a system of competitive choice denies established institutions their monopolies—or, at minimum, their privileged positions. Predictably, they object. And they are rarely shy about sharing their objections with elected officials.

In Milwaukee, the teachers' union put up a decade-long fight against vouchers, contracting, and charter schools. Many of the system's administrators resisted as well, though more through bureaucratic inertia than through political activism. In Minnesota, the teachers' unions, principals' association, and superintendents' association resisted public school choice, as we described in *Banishing Bureaucracy*. Also in Minnesota, the legislature defeated the governor's first proposal to create a Consolidated Chemical Dependency Treatment Fund because state hospital employee unions opposed it. They knew that their hospitals would lose patients to cheaper halfway houses and outpatient treatment centers if they had to compete.

Reinventors must have the courage to take on special interests. They also need the street smarts to beat them in the political arena. Based on our study of a dozen different transitions to competitive choice—from public education to job training to drug treatment to child care—we offer the following tips for winning the political wars.

**1. Show the public how little the emperor is wearing.**

"Someone must announce that the emperor has no clothes," says Curtis Johnson, a leader in the fight for public school choice in Minnesota. "Someone or some group of some standing must say the current system doesn't work." Johnson led his organization, the Citizens League, to do so in the early 1980s, with a groundbreaking report on the quality of the public school system. The Minnesota Business Partnership, made up of the leaders of the Twin Cities' 80 largest corporations, followed with its own study. Finally, leaders in the state



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began to realize that their public education system—long the pride of the state—was not all it was cracked up to be.

The lesson is very simple: if you cannot convince people that the existing system is broken, they will not endure the political pain necessary to fix it. To convince them, you will need data. It is no accident that Howard Fuller began his first report to the Milwaukee school board with a recitation of the sorry statistics of student achievement in Milwaukee.

### **2. Articulate the general interest.**

Interest groups will always defend their own interests: their jobs, their salaries, their power. To defeat them, you must focus public attention on the *general interest*: better schools, cheaper health care, increased opportunity for job training or child care. Interest groups will bring to bear all the pressure they can on elected officials. Often, a threat to field and fund an opponent at election time is daunting, because elections for school boards, city or county councils, and state legislatures don't get a lot of media attention or stimulate high voter turnout. In quiet elections, well-organized interest groups can often defeat incumbents. If you want to overcome this kind of pressure, you have to make the issue very public and focus it on the general interest. In a back-room political battle, the special interests will win every time.

### **3. Seize the high ground.**

In Milwaukee, opponents of vouchers accused the reformers of trying to destroy the public schools. They painted them as elitists who didn't care about the children who would be left behind when better students jumped ship with vouchers. The reformers refused to bite; instead, *they* seized the moral high ground. Mayor Norquist pointed out that the choice program “offers poor and working-class families in the city something wealthier Americans have always had: the power to choose their children's school.”

“What the opponents of school choice are really saying is that they just don't trust you to decide which school is best for your child,” Bradley Foundation president Michael Joyce told a group of black parents.

“I have yet to meet an opponent of school choice who didn't already have it,” added John Gardner.

In Minnesota several years earlier, reformers made it very clear to the teachers' unions that if they fought the governor's proposal for public school choice, equity would be the central issue. “If you have a lot of money, you have a lot of choice,” Verne Johnson pointed out. “If you don't have a lot of money, you don't have a lot of choice.” If they opposed choice, unions made up primarily of white, middle-class teachers would be accused of denying equal opportunity to poor and working families.

Once the reformers seized that ground, the unions realized they couldn't win—not with the governor leading the fight for reform. After the reformers laid down the gauntlet on equal opportunity, Ted Kolderie remembers, “I think



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it became clear to the unions for the first time how vulnerable they were.”

**4. Keep your message simple.**

Few issues are more complex than mental health funding. When Minnesota created its Consolidated Chemical Dependency Treatment Fund, the reform was hopelessly complex. So the reformers boiled it down to a simple idea: “The dollars follow the client.” It “helps to have a simple overall concept to explain what may be a fairly complex policy change,” they counseled others in their application for an Innovations in State and Local Government award.

**5. Communicate in terms people understand and feel comfortable with.**

Abstractions like “restructuring schools” or “outcome-based education” won’t get you very far, says Joe Nathan, a Minnesota education reformer who runs the Center for School Change at the University of Minnesota.

*I never talk about restructuring schools. I go around and tell stories. I was trained by Alinsky, and one of his central rules was you’ve got to talk within the framework that people understand. When I would go around the state and talk about school choice, I would talk about opportunity, not about competition, because there are a whole lot of people in this state who don’t believe in competition.*

When Nathan works in rural communities to help them restructure their schools, he says to people, “We’d like to provide your kids an opportunity to do hands-on things like they’re doing in Little Falls, or in X, Y, or Z.’ One good story is worth about 100 pages of strategies. We’ve worked in 35 communities, and in not one have we had resistance.”

**6. Sell results, not a process.**

Too often, reformers try to engage the public in a discussion of the *process* they are trying to create: how the new system of competitive choice will work. On some occasions, this is appropriate. But to win a political battle, you must sell the public on the *results* you want to deliver. If the reform will save money, give people choices, or force providers to improve, then focus on those goals. Most people don’t care how you get there, but they do care about results.

Once you begin to produce results, you must measure and document them and publish your data. In Milwaukee, for example, a careful study by Harvard University political scientist Paul Peterson and two colleagues showed that by the third and fourth year in a private school, students who received vouchers had made significant academic gains compared with those who had applied unsuccessfully for vouchers and remained in public schools.



[Click Here to order](#)

### 7. Use polls to prove your support.

If politicians pay attention to anything, they pay attention to polls. In Milwaukee, strong support for vouchers among minority parents, proven in poll after poll, helped the program survive. When interest groups oppose a reform that is supported by a broad majority of the public, everyone suddenly understands that the groups are defending their own narrow self-interest, not the general interest.

### 8. Sell your side of the story to the media.

Too often, reformers wait for the media to come to them. This is a mistake; you need to take your story to the media. This requires more than just presenting your arguments. It means backing them up with data—and most important, dramatizing them with stories of real-life people and conflicts. “We’re not content to issue press releases; we don’t wait for journalists to call us,” says Nathan. “We constantly sit down with journalists and tell them what’s going on.”

But the media won’t report most things “unless you make it a good story,” Nathan has learned. During the battle for school choice, he constantly fed stories to the media. One involved a young woman in an inner suburb who had a three-year-old and a five-year-old, he remembers. She was a secretary at 3M. “The three-year-old had some disabilities, and she found somebody near 3M who not only did day care but did physical therapy, who could help her kid. In order to make this work, she needed to have her other kid go to kindergarten nearby, because it was half-day, and the kid needed to be dropped off before school and after school at day care.”

She asked her district to let her send her child to kindergarten in a different district. They refused, because the superintendent thought it was another case of a parent who just wanted convenience. “We found some young working women at the two newspapers and told them about this,” Nathan smiles.

*We found a producer at one of the local TV stations who was a working mother. Day after day after day, there were stories about this situation: Mother appeals to school district, is turned down. Mother appeals to school board, is turned down. The superintendent wouldn’t budge.*

It went on for eight weeks before the school board finally gave in.

### 9. Organize constituencies that will benefit from reform.

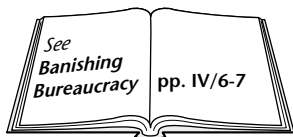
In most situations, the potential losers from choice and competition—existing providers—are already well organized. Reformers have to organize those who would benefit from competition: both customers and providers who do



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not yet have access to those customers. State hospitals and their unions feared the competition from Minnesota's Consolidated Fund, but other providers of care welcomed it. So after its first bill failed, the Perpich administration put together an advisory commission of stakeholders, including the other providers, to develop the final legislation.

Minnesota's education reformers consciously built a series of constituencies. They started by convincing the Citizens League to endorse school choice. Then they recruited the Minnesota Business Partnership. Next they reached out to minority communities, where parents felt particularly captive of the public school monopoly because they couldn't afford private schools. Later they organized students and parents from the first school choice program into a potent constituency.



**10. Develop champions in both parties.**

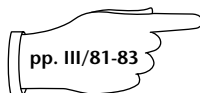
Reforms can quickly become politicized, with one party opposing them simply because the other party supports them. But if only one party supports a change, reformers run a risk that the executive or legislative branch will fall into the opposition's hands and kill the reform. The solution is to develop solid backers in both parties. In Minnesota, for example, most of the pioneering school choice reformers were Democrats. Early on, they recruited the former Republican governor, Al Quie, to their cause. Next they went after the sitting Democratic governor, Rudy Perpich. Once he signed on, the reform coalition was solidly bipartisan.

**11. Don't take on too many opponents at once.**

Sometimes wisdom is the better part of valor. When the Perpich administration was working to pass legislation to create the Consolidated Chemical Dependency Treatment Fund, it faced opposition from public hospitals, their unions, and even some private hospitals, which also feared losing business to new competitors. In addition, the counties did not want the Community Social Service Act funds they controlled to go into the Consolidated Fund. So the reformers decided not to take on that battle.

**12. Make a deal with the special interests.**

Often the best way to soften opposition is to protect the interest groups from their worst fears. If you can make a deal with one or two key interest groups, you can divide the opposition. Unions can be guaranteed that their workers will not be laid off; if their units lose customers, as they almost inevitably will, surplus employees can be retrained and placed in other public



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sector jobs. Monopoly providers can be guaranteed a slow transition to full competition, to soften the blow. When Texas converted its day-care funding to competitive choice, for example, it gave providers who had local monopolies guarantees of gradually decreasing enrollments, along with training in marketing techniques.

### 13. *Get the new system in place before the next election.*

Shifts from monopoly systems to competitive choice are almost always controversial. And politicians hate controversy at election time—particularly when angry interest groups are involved. So if possible, get the new system in place before the next major election. A system already in place is hard to undo, but a transition just begun can easily be halted.

### 14. *Be prepared for lawsuits.*

When they lose something as important as the job security that comes with monopoly status, providers and their interest groups often pull out all the stops to block the change—including filing lawsuits. Reformers need to anticipate this and have a way to fund an aggressive defense.

### 15. *Stay on offense.*

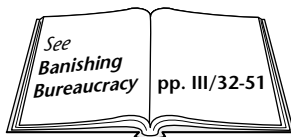
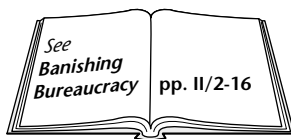
Opponents will always attack reforms that take away their monopolies, but the best defense is a good offense. If you keep pushing forward, expanding the reforms, you can force your opponents to play defense. “Once you start the momentum rolling, never let it stop until you have completed the total programme,” says Roger Douglas, the former Labor Party finance minister who led New Zealand’s dramatic reinvention efforts. “The fire of opponents is much less accurate if they have to shoot at a rapidly moving target. If you take your next decision while they are still struggling to mobilize against the last one, you will continually capture the high ground of national interest and force them to fight uphill.”

In Minnesota, as we described in *Banishing Bureaucracy*, public school choice reformers pushed through one advance after another over 10 years. “Traditional educators were kept so busy on redesign issues that they had little time to develop initiatives of their own,” academics Nancy Roberts and Paula King reported in their study of the process. “They were forced into a reactive mode as redesign proponents took the initiative, framed the issues, and eventually convinced many educators that public school choice had merit.”

“You only score when you have the ball,” says Curt Johnson, a leader of the Minnesota effort. “You have to keep playing offense all the time, or the people who want to block you will prevail. You can’t stop when you’re winning.”

### 16. *Don’t compromise the fundamentals.*

This is perhaps the most important advice we can give. Competitive choice



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systems are very powerful; they provide enormous leverage to change behavior, because they force all providers in the system to work very hard to satisfy their customers. But they do not work if the customers' choice or the providers' competition is diluted too much.

Though reformers sometimes have to compromise with interest groups, it is a mistake to compromise on choice or competition. Indeed, it is wiser to wait for a better moment than to pass legislation that compromises the fundamentals. This is one of the basic rules passed on by Curt Johnson, Ted Kolderie, and their band of Minnesota reformers. Roger Douglas agrees. "The problem with compromise policies is simple," he says. "They do not produce the right outcome for the public at the end of the day. So they come back to haunt the politicians responsible for them."

### CALMING LEGISLATORS' NERVES

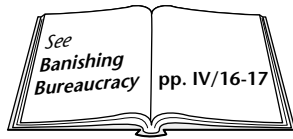
The political struggle for systems of competitive choice almost always takes place in a legislative body, whether a school board, a city or county council, or a state, provincial, or national legislature. Elected executives often support choice and competition, because they represent all the people and can afford to uphold the general interest. Legislators face very different incentives: they get little credit for big changes like school choice, but they get tremendous heat from interest groups at election time if they support those changes. As a result, they find the hard work of breaking monopolies very risky.

There are a number of ways to help legislators cope with this risk. The best one, quite obviously, is to organize constituencies to push legislators for reform just as hard as the interest groups are pushing against it. In addition, you can use a number of other techniques to lessen legislators' anxiety:

- **Provide *quid pro quos*.** Give legislators something they need politically, such as savings to balance the budget or support for a project they want, in return for their support.
- **Provide "*letters of comfort*."** The late Bill Donaldson, a legendary city manager in Cincinnati, Tacoma, and Scottsdale, Arizona, counseled other reformers to find ways to reassure legislators that reforms would not blow up in their faces. He compared this to the letters borrowers secure for bankers, testifying to their good character and creditworthiness. For example, one could take legislators to another area that has created choice or charter schools and show them how the controversy quickly died down and teachers accepted the reforms—or bring teachers from elsewhere in to explain the same thing.
- **Find *credible partners*.** Often, legislators will be reassured if the business community is active in a reform coalition. Community organizations also have credibility in many environments. Even better, if any unions support the reforms, they can quiet fears about opposition from other unions.



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- **Deliver early victories.** Nothing succeeds like success. If you can prove that choice and competition work—and create happy constituents—you can win over many legislators. In Minnesota, the Postsecondary Options program, which slipped through unnoticed while the unions were blocking a broader choice bill, proved how popular and effective it was to give juniors and seniors a real choice and make high schools compete with colleges for their students and dollars. When the interest groups tried to repeal it, the outpouring of support from parents and students was eye-opening for the legislature.

- **Share credit with legislators.** When results come in, let legislators who back the reforms release the data and take the credit. This produces the currency that counts with elected officials: good press. If they get to bask in the glow of success, they will be more likely to take a risk next time.

## THE EQUITY ISSUE

The most serious issue opponents raise about systems of competitive choice is that they will benefit the affluent and educated, who will know how to get what they want as customers, but hurt the poor and uneducated, who will not. For example, middle-class parents will work hard to get their children into the best schools, but poor, uneducated parents will leave their kids in schools that will spiral downhill as their best students leave. A related issue has to do with race: in the U.S., critics argue, whites will use choice to flee schools with significant numbers of minorities, undermining attempts to integrate the schools and leaving minority students in poor, failing inner-city schools.

The truth is that under traditional systems, many white families have done just that—moved to the suburbs or sent their children to private schools. After forced busing was implemented to integrate U.S. schools, so many whites fled the cities that many urban districts became 90 percent or more “minority.” Low-income students are also trapped in failing inner-city schools as the middle class flees to private schools or the suburbs.

But the fact that past systems were flawed does not excuse similar flaws in reformed systems. The equity issues are all too real. A pure voucher system, in which all students received a voucher worth the same amount, would probably produce an education system with even less racial and socioeconomic integration than exists today. Parents would add their own money to the vouchers to buy their children the best education they could afford. Then, like any other market, the education marketplace would stratify by price: it would produce \$20,000 schools, \$15,000 schools, \$12,000 schools, \$10,000 schools, \$8,000 schools, and schools that charged only the price of the voucher.

This would be a mistake, in our view. Public schools exist to educate children, but they also play a role in socializing them, in developing them into constructive citizens of a multiracial, multicultural democracy. If students don't



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go to school with kids from different walks of life, they will grow into adults who don't understand people who are different from them. Some will fear those who are different; others will simply never discover that beneath their skin color and income level, most people are pretty much alike. Before long, our society will lose some of its empathy, some of its commitment to caring for people who need help. We will become less a community and more a collection of individuals.

In addition, the quality of other students is a big factor in a child's educational experience. If low-end voucher schools end up with only poor children, few of whose parents have attended college, those children will never benefit from exposure to children who have broader horizons—children who read a great deal at home, use computers often, and strive to do well so they can attend good colleges. This would inevitably widen the achievement gap between poor children and affluent children.

Voucher systems can certainly be structured to promote equity—by limiting vouchers to those below certain income levels; by using a sliding scale, with higher-income families receiving vouchers of lesser value; or by forbidding schools that accept vouchers from charging parents any amount above the voucher. But in a democracy, it would be very hard to sustain any of these alternatives. The middle class would inevitably demand its right to equal vouchers and to spend any amount above the voucher's value. And in a developed democracy, what the middle class demands, the middle class usually gets.

Another approach would require all schools accepting vouchers to enroll at least a set proportion of low-income or minority students. But in the U.S., given recent court rulings on affirmative action, race-based admissions would face insurmountable legal obstacles. Income-based admissions would also face immediate legal challenges, as well as determined political opposition. These realities lead us to conclude that we are better off with highly competitive systems of public choice, using vouchers only for limited populations—such as low-income students or those in failing schools.

But even in competitive public choice systems, the equity issues are real. We must think of a “social market,” not a “free market,” when we create such systems. Michael Alves, an education consultant who has helped design numerous choice systems, says it well:

*After implementing controlled choice in fourteen districts around the country, we feel confident that there is no conflict between choice and integration, if you control for it. And we are equally confident that if you don't control for race and social class, then choice will have no positive effect [on integration]. If anything, history shows that uncontrolled choice will make things worse. So you need to design the ground rules of choice programs very carefully.*



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This careful design should include, at minimum:

- A system in which dollars follow the child, to create real financial pressure on districts to improve the schools people are deserting, so kids whose parents leave them in those schools will no longer be trapped in declining institutions.
- A requirement that districts close and “reconstitute”—that is, reopen under a new principal, with many new teachers—shrinking schools that fail to improve after two years.
- Programs to create new schools specifically designed to foster socioeconomic and racial integration, such as charter schools and magnet schools.
- Subsidized transportation to their school of choice for low-income students.

Some states and districts use racial quotas, in one form or another, to promote integration. In some states, for example, students cannot move from one district to another if doing so will make the system less integrated; this typically keeps white students from leaving districts with large minority populations. (Many of them leave for private schools or move to the suburbs, however, defeating the purpose of such a rule.) Some districts that use “controlled choice” to integrate have numerical targets for racial minorities in each school, to ensure that all schools are fairly balanced. These approaches may be necessary in some situations, but they undercut the competition between schools of choice, because they restrict so many decisions. Also, they are gradually being ruled unconstitutional by the courts. We recommend that reinventors exhaust other methods first, before resorting to such restrictions. Options include:

- Requirements that schools actively try to recruit minorities and low-income students.
- Financial bonuses to schools that are integrated racially and economically, so schools have incentives to recruit kids that differ from their norm.
- Special programs to promote integration, such as METCO, which helps minority students in Boston attend schools in the suburbs that are otherwise hard to access through the choice program.

By carefully working to promote racial and socioeconomic integration, we believe, public systems of competitive choice can actually increase equity in our schools. By creating many high-quality alternatives, for example, they can bring white middle-class families back to the cities. The more good schools there are in the cities, and the more school choice, the less residential segregation there will be. But we must acknowledge that an unfettered market



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would increase segregation by income levels. If we want to reach all our collective goals—high performance by students, equal opportunity for all students, and the democratic values reinforced by mixing races and classes—then we must carefully structure that market to maximize choice, competition, and equity.

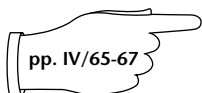
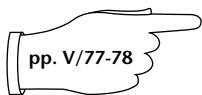
**DESIGNING  
COMPETITIVE  
CHOICE: LESSONS  
LEARNED**

*Banishing Bureaucracy* presented other important lessons (pp. 187–191) that apply to competitive choice systems, on which we elaborate in the following.

**1. There must be enough suppliers to give customers real choices.**

If a particular service is a natural monopoly—if it is far more efficient to have one provider—choice is the wrong approach. If there are only two or three suppliers, the government may need to catalyze the creation of new suppliers, depending on the situation. Two or three accessible suppliers of child care may be all one can expect in a rural area, for example, but it would hardly be enough in a city or suburb.

There are many ways to do this. One can establish new public institutions; in education, for example, one can create charter schools, magnet schools, schools-within-schools, and so on. (We recommend charter schools, because they have the flexibility and accountability needed to succeed.) Or one can spur new private providers into existence, through public-private partnerships; subsidies such as grants, loans, and tax credits; or funding for customers via vouchers or reimbursement programs.



**2. Customers must have sufficient resources to access quality service providers.**

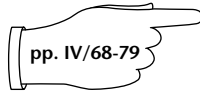
If low-income customers don't have enough income to buy quality services, governments may need to subsidize them, through vouchers, reimbursement mechanisms, or public systems in which dollars follow the customer. In creating systems of private day-care providers, for example, some states subsidize families on a sliding scale, depending on their income.

**3. Customers need useful, reliable, accessible information about the quality and cost of different service providers.**

Services intended to promote human development, such as education, training, day care, and health care, are particularly difficult for customers to judge. Any parent who has shopped for the best school for his or her children—or anyone who has tried to pick the best college for himself or herself—understands the problem. Public systems can provide a range of information about quality, customer satisfaction, outcomes, timeliness, responsiveness, cost, and other factors, so customers can weigh them and decide what is most



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important to them. Many customers will also need people they can talk to about the data, to sort through their choices. We discuss ways to do this using customer information systems and brokers later in this chapter.

In some cases, customers aren't even aware they have choices. Eight years after Massachusetts launched its interdistrict choice program, we were still meeting parents who didn't know that it existed. Often, the first thing a public system needs to do is to advertise the fact that choice exists and where to get information about available choices.

#### **4. Governments need to structure the rules of the marketplace carefully, then enforce those rules.**

As *Reinventing Government* argued, the only truly “free” markets—if that means free of government intervention—are black markets. And as everyone knows, black markets are ruled through force and racked by violence. To function smoothly, any market needs rules, and government must enforce those rules. This is just as true of social markets created within public systems as it is of private markets.

Consider what happened when Arizona passed the nation's most wide open charter school law, in 1994. Within four years, 400 charter schools enrolled 50,000 students, 6 percent of the state's public school population. According to the *Wall Street Journal*, the founder of one school “hired her sister to keep the books, her mother to teach etiquette, another sister to teach science, her brother to head security and her brother-in-law to work as a guard.” She paid herself \$89,000 a year and her sister \$79,000, and they both received \$350—a-month car allowances. In 1996, state auditors found their financial controls “practically nonexistent,” and the school filed for bankruptcy. Revoking its charter, the state accused the school of inflating its enrollment by 100 students to get excess state aid.

#### **5. Systems of competitive choice must guard against “creaming”—the tendency of providers to select the best or easiest customers.**

If providers are paid according to how many people they serve, they will have a powerful incentive to recruit those who are easiest to serve. Health maintenance organizations will recruit young, healthy people, not the elderly. Job training and placement organizations will recruit those who have the most education or work experience and are easiest to train and place in jobs. Schools will recruit students whose presence will attract other students: those who behave well, score high on tests, star in athletics, and get into top-flight colleges.

This is natural behavior, and governments must anticipate it. If they want to preserve equal opportunity in their systems of competitive choice, they must establish rules that minimize creaming. For example, job training and placement



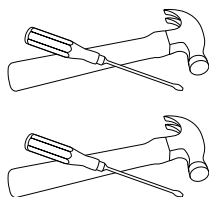
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organizations can be paid more for training and placing individuals with low skill levels than those with high skill levels, to ensure that the former get served. Many public school choice systems require that schools with more applicants than they can accept use lotteries to decide who gets in, so schools cannot favor gifted or well-behaved students.

This is a trade-off, of course. There are good reasons to let public schools choose their students, if one wants to create schools that excel in particular areas. It is harder to create an excellent performing arts school or math and science school if one has to admit students by lottery. If a district can create enough specialized schools to meet the demand—so no one is denied the opportunity to attend one—then selective admissions can be justified. But those setting the rules should be very careful to trade away as little equal opportunity as possible in their quest for excellence.

**6. Systems of competitive choice must guard against deceptive marketing.**

The more competition they face, the better public institutions will get at marketing themselves. In the process, some will inevitably distort reality and deceive prospective customers. Some private providers, such as for-profit vocational training schools, are already notorious for their deceptive advertising. To combat this, governments must crack down on such practices and provide the objective information customers need to make informed decisions.



**TOOLS FOR COMPETITIVE CUSTOMER CHOICE**

**Competitive Public Choice Systems** encourage customers to choose their providers and let public dollars follow the customer to the provider. See p. IV/60.

**Vouchers** give designated customers the resources to purchase services themselves, wherever they choose; **Reimbursement Programs** reimburse providers when customers choose their services. See p. IV/65.

**Customer Information Systems** give customers who are choosing service providers—with public resources, their own resources, or a combination—information about the quality and cost of each provider, so they can make informed decisions. See p. IV/68.

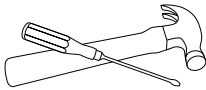
**Brokers** help customers find and evaluate information about different providers and choose which one would be best for them. See p. IV/77.



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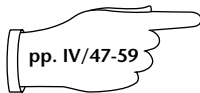


## COMPETITIVE PUBLIC CHOICE SYSTEMS



When schools, day-care centers, or other public service providers have to attract and keep customers to get their funding, most of them do what is necessary to please those customers. Competitive public choice systems harness much of the power of competitive markets while allowing public leaders to structure those markets to enhance public values such as diversity, fairness, and equal opportunity. Unlike enterprise management, which creates true competitive markets, this approach creates “social markets”—markets that can be managed to deliver public goods and preserve collective values.

Enterprise management is preferable for private goods, which primarily benefit those who use them. It gives providers maximum flexibility but makes them directly accountable to their customers, normally in a competitive market. But many services are public goods, or combinations of private and public goods. Public education and public health are combinations, for example: in addition to the obvious individual benefits, society benefits by having everyone educated and immunized. Enterprise management is not appropriate for such services, because they should not be charged to individuals. Society has a clear interest in making sure that they are available to all, regardless of their ability to pay.



All the lessons and tips articulated earlier apply to competitive public choice systems as well. The following “do’s and don’ts” round out the picture.

**Don’t assign any customers; make all customers choose.** In many public school choice systems, students are assigned to schools, but their parents can choose a different school from among those that have room. Inertia takes over, and only a small percentage of families choose their school. Assigning customers in this way minimizes competition rather than maximizing it, regardless of the service in question.

In such situations, many schools retain the character of their neighborhood: some are affluent suburban schools, for example; others are white, blue-collar suburban schools; others are heavily minority urban schools. Those students who choose to change schools must fit into a school with a particular socioeconomic character—which may be different from their own. This inevitably dampens the number of people who exercise their right to choose. As education consultant Michael Alves points out, “If your schools are segregated by race and income, what you ask people to do in these plans is to come into somebody else’s school, where they may not feel they are going to have equal status.”

In addition, the evidence shows that better-educated, affluent parents will be more aggressive about making choices in this situation than will those with less education and income. Hence their children will have greater opportunities for improvement than less advantaged children, widening the opportunity gap.



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If there are no assigned schools, however, every family will have to make a choice. Educated, affluent parents may still be more aggressive, but the gap should not be as wide.

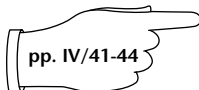
**Allow providers open entry into the market, to spur innovation and maximize choice and competition.** In the private marketplace, much of the innovation in any industry comes from new businesses, which are often started by entrepreneurs inspired by an innovative idea—a new product, a new service, or a new way of manufacturing something. Existing firms are weighed down by their current products or services, their current organizational structures, and their current habits. The few large firms that are highly innovative structure themselves so that employees can launch the equivalent of new businesses, without leaving the company.

This reality is even more true in the public sector, where there is more red tape, more inertia, more internal politics, and more resistance to change. Public systems need a constant supply of new start-ups to produce the innovations that will allow them to continually improve their quality and lower their costs. This is precisely what Minnesota senator Ember Reichgott-Junge had in mind when she authored the nation's first charter school bill:

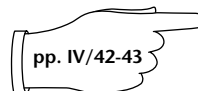
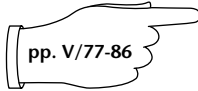
*In Minnesota, one of our major employers is the 3M Company, and I think they are one of the most visionary companies we have, because when they project their revenues in ten years, they project that 50 percent of their revenues are going to come from products that haven't even been invented yet. And then they invest money in small groups within the company to go out and invent products and be creative.*

*What if 50 percent of the learning methods in education haven't been invented yet? We need to find a way to allow that innovation to occur. I think charter schools are the way to do that. And those methods then can be transferred to the entire system, to jump-start the entire system.*

New providers are also necessary to maximize the choices available to customers—and to maximize competition. In many school systems, there are so few empty seats that although parents have choices in theory, most of the schools they would choose don't have room. In a closed market such as this, schools face very little real competition for their dollars. But if new schools are springing up all the time, creating excess capacity in the system, the competition will increase dramatically. As new schools arise, other schools will shrink, losing money. Only when they lose enough to feel the pain, as we have seen, will they begin making changes to win back their customers.



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To create real open entry in a public market, where start-up capital is not available, you may have to provide it. The biggest obstacle faced by those starting charter schools has been the absence of start-up money to help them lease or build a facility. In Chapter 17 we suggest several different ways that governments can meet this challenge.

**Don't protect service providers; let them feel the pain of failure.** In many statewide interdistrict choice programs, districts that lose large numbers of students are protected from financial consequences, so they have little financial incentive to win back market share. In Massachusetts, during the first two years of interdistrict choice, losing districts paid a large price: they had to send tuition payments to the receiving districts, based on *those* districts' per-pupil spending levels. Sometimes these were far higher than the per-pupil spending levels of the losing districts. This caused so much protest that the legislature changed the funding formulas, blunting the cost of losing students, particularly for poor districts. Districts that lost 5 to 6 percent of their students still felt financial pain—and continued working to solve their problems and lure students back. But the three districts in Armor and Peiser's research sample that lost 2 percent of their students experienced no financial pain, because of the state formulas. Not surprisingly, they did nothing to respond.

If you want choice to motivate providers to make improvements, you have to make sure they experience the consequences of losing customers. The formula must be fair, however. Otherwise the political backlash may drive the legislature to remove the sting of failure—and thus the incentive for providers to improve.

**Close down failing providers.** As schools or other service providers lose volume, the system must intervene. If not, those providers may continue to spiral downward, trapping customers who aren't paying attention (or whose parents aren't paying attention) in a shrinking, failing program. As Jersey City teacher Jerri O'Brien-Cass told the *New York Times Magazine*, "If my best students, my Schnelle and my Phillip, are going off to charter schools, God bless them—let them go if it gives them better lives. But that makes us like a prison. We'll be the Last Stop Incarceration Public School."

According to the British Office of Standards in Education (OFSTED), this dynamic has occurred in some English schools:

*Some secondary schools have become locked into a vicious circle. The fact that their examination results are modest has meant that few parents outside their immediate catchment area indicated a preference for them. As a consequence they have unfilled places and have been regularly confronted with the demand that they admit difficult pupils. The difficulty of assimilating such pupils has rendered some schools even more unpopular with parents.*



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The solution is to put failing providers on notice, with a deadline for improvement. If they fail to meet minimum standards by the deadline, shut them down and put another provider in their place. In public education this is called “reconstitution”—a new principal is brought in to design a new school and is given authority to hire some or all new teachers. (A better solution would be replacement by a charter school.) Many school districts and states have policies that allow this, although it is rarely done because it is so politically difficult.

The secret is to lay down clear conditions that will trigger the first warning and the closing or reconstitution, and to require action when those conditions exist. The British now have a system, for example, in which inspection teams that find a school is “failing to give its pupils an acceptable standard of education” can designate it for “special measures.” The school then has to submit an action plan for improvement to the national Department for Education and Employment. Inspectors monitor implementation of the plan and report regularly on the school’s progress. Failing schools are “expected to improve and be close to providing an acceptable standard of education within two years of being deemed to need Special Measures,” according to OFSTED. Between 1993 and 1997, inspection teams designated 717 schools for special measures—about 3 percent of secondary and primary schools and 8 percent of special schools. Some 55 were closed, but 143 made sufficient progress to warrant removal from special measures.

**Don’t let the public assume that when providers fail, the system is failing.** The public schools that are most accountable for performance and most likely to be closed down are charter schools, because their charters must be renewed every five years or so. By 1999, more than two dozen charter schools in the U.S. had been closed, primarily because of internal power struggles or financial mismanagement. When this happens, the media sometimes assume the system has failed. In reality, some providers in systems of competitive choice *should* fail. If none do, either the competition is not very stiff, no one is policing the market, or both. When creating such a system, reinventors should announce in advance that they expect to shut down low-quality providers—and that this is a sign of success, not failure.

**Help former monopoly providers learn how to improve and to learn from one another.** When you convert to competition and choice, you may need to help former monopolies adjust to the realities of competition. When Texas converted its day-care system in the early 1990s, for example, it provided staff training scholarships, new materials, and training on marketing and financial management to providers that lost their monopolies. It also created quality criteria for providers and certified those who reached them.

In a normal competitive market, competitors will watch one another

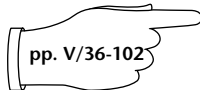


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closely for innovations and then adopt those that seem to work. But when former monopolies are angry about losing market share, they often want nothing to do with their new competitors. Several studies have found that public schools are not picking up innovations pioneered by charter schools, for instance. There are many reasons for this, but two seem most prominent: public school administrators don't have the habit of making time to observe their competitors, and many resent their competitors. "Many district superintendents are angry and resentful about loss of revenue that results from students' attending the charter schools," a Massachusetts report explained. "They are therefore resistant to learning anything from them. Some are actively hostile to the charter schools."

To compensate, reinventors need to create formal forums—conferences, teacher training centers, and the like—in which competitors can swap information and learn from one another.

**Don't wrap providers in red tape.** Competitors in a public market will be unable to reach their potential if they are buried in red tape. Some rules are necessary, of course. But in creating systems of competitive choice, reinventors should use a formal process to eliminate unnecessary rules and to simplify administrative systems for all providers. Without this step, this tool will be akin to forcing athletes to compete when they are bound and gagged. Sadly, we have seen this done all too often in the public sector.



#### RESOURCES ON COMPETITIVE PUBLIC CHOICE SYSTEMS

David J. Armor and Brett M. Peiser. *Competition in Education: A Case Study of Interdistrict Choice*. Boston: Pioneer Institute, 1997. A close, honest look at the dynamics of competitive public school choice, with useful suggestions about how to best structure such systems.

Center for Education Reform Web site: [www.edreform.com](http://www.edreform.com). A comprehensive resource on education reform, with excellent material on choice and charter schools.

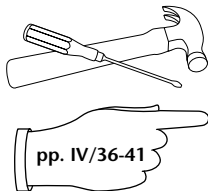
Joe Nathan, ed. *Public Schools by Choice*. St. Paul, Minn.: Institute for Learning and Teaching, 1989. Still the best collections of essays we have read on public school choice.

Nancy C. Roberts and Paula J. King. *Transforming Public Policy: Dynamics of Policy Entrepreneurship and Innovation*. San Francisco: Jossey-Bass, 1996. The story of how a small group of civic activists brought public school choice to Minnesota (and thus to America), with useful lessons on political strategy and tactics.



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## VOUCHERS AND REIMBURSEMENT SYSTEMS



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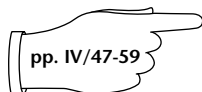
**Vouchers give designated customers the resources to purchase services themselves, wherever they choose; Reimbursement Programs reimburse providers when customers choose their services.**

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As Milwaukee's experience demonstrates, vouchers and reimbursement programs have enormous leverage to change public systems, because they can force public service providers to compete for their money. This very fact makes for excruciating political resistance, however. Most existing voucher and reimbursement programs, such as food stamps, housing vouchers, Medicare, and Medicaid, affect only (or primarily) private sector providers. When first introduced, such programs are generally designed to expand access to private services for low-income people, so they often are welcomed by private providers. Voucher proposals that create competition for existing public providers face a much frostier reception. When President Clinton proposed in late 1994 to allow residents of public housing to convert the funding to a voucher and use it to buy housing in the private marketplace—in part as a way to force public housing developments to compete—the idea was so controversial that even the Gingrich Republicans stonewalled it.

But in public education, voucher advocates are beginning to break through the wall. Milwaukee's program allows up to 15 percent of the district's students to use vouchers; by 1999–2000, roughly 8,500 did so. Cleveland had a similar program, with 2,900 participating students in 1998–99 (though it was still under challenge in the courts). The CEO Foundation and others fund private voucher programs in dozens of cities. And in the spring of 1999, Florida governor Jeb Bush pushed a bill through the state legislature that gives students at “failing” schools—those that fail to meet minimal state standards twice in four years—vouchers worth at least \$4,000 to attend public or private schools of their choice. (It too has been challenged in the courts.)

Vouchers and reimbursement programs are, for all practical purposes, the same tool. One gives the payment to the customer; the other pays the provider after the customer has chosen that provider. Although education vouchers have passed the church-state test in the Supreme Court and reimbursement programs might not, otherwise they have the same dynamics and impact. All of the general lessons and political tips offered earlier apply to both of them.



Any service from which individuals can be excluded can theoretically be funded through vouchers or reimbursement. This leaves out police protection, fire protection, public health services, national defense, some public parks, and other “collective” services. Otherwise, vouchers and reimbursement programs can be powerful tools to create competitive choice. The decision about when



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to use them hinges on political realities more than anything else.

### Advantages of Vouchers and Reimbursement Programs

**They are administratively simple.** Whereas funding systems for public competitive choice can be an administrative nightmare, vouchers are quite simple. You may have to create several classes of vouchers for different classes of customers—for example, a voucher worth \$7,000 for most students, a voucher worth \$15,000 for special education students, and a voucher with a negotiable value for severely handicapped students. But this is a minor complication.

**They make providers more thoroughly accountable to their customers.** Private institutions at risk in the marketplace are expected to expand, shrink, and die, unlike most public institutions. Since most providers in a typical voucher system are private, few people notice when one or two go under—as long as there are plenty of others still thriving. Hence providers in a voucher system are more directly at risk than are providers in most other systems of competitive public choice, which tend to protect public institutions from closure.

**They tend to be less encumbered by red tape.** Since many providers are private, they typically have much greater flexibility to try new things than do public providers. When public providers are included, it is easier to convince public sector leaders to give them freedom from most regulations as well, so they can compete effectively. This is less true when all competitors are public.

**They can make it easier and cheaper to promote equal opportunity.** With some services, it is politically acceptable to give vouchers to low-income people but not to others, so the poor enjoy the same access everyone else has. In the U.S., we do this with health care, housing, food stamps, job training, adult education, and college education. (The U.S. is now beginning to test whether this is politically possible in K–12 education; we doubt it is, due to the long-established precedent that *every child* in a community should receive the same opportunities. We suspect that once the poor are given vouchers, the middle class will quickly demand them. In Milwaukee, for example, the mayor has already proposed making every family eligible for vouchers. Universal voucher systems would, in our opinion, create less equity in education, not more.) When it is politically possible to subsidize only the poor, however, this is a far cheaper approach than creating a public choice system that subsidizes everyone.

**If the voucher or reimbursement is not full payment for a service, it wastes less money.** If a housing voucher is worth, say, \$500 a month but most apartments cost more than that, then voucher recipients will have an incentive to shop for the best deal they can find. The same is true if a Pell Grant

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is worth \$3,000 and most college costs are above that amount. Hence providers will have an incentive to offer the best value for the dollar, and purchasers will have an incentive to spend no more than they need to. In public choice systems, these incentives are missing. (They are also missing in voucher or reimbursement programs that don't allow providers to charge more than the voucher. There is a trade-off here between equity and efficiency.) Customers in such systems don't care how much the provider charges, because they don't pay any of it. So they often buy more expensive services than they would if they had to foot part of the bill or could keep any money they didn't spend.

### Disadvantages of Vouchers and Reimbursement Programs

***Voucher or reimbursement programs that are open only to the poor require eligibility checks, which can be cumbersome.*** To run a food stamp, Medicaid, or housing voucher program, you have to establish income and asset limits, then require people to apply and confirm whether they are telling the truth on their applications. This can be expensive. When you take shortcuts, some people will inevitably cheat, and critics will use that reality to undermine the program. In Cleveland, for example, a 1999 state auditor's report criticized the school voucher program for being lax in documenting applicants' income levels and residency.

***Voucher and reimbursement programs require even more extensive efforts to regulate and police the marketplace than do other competitive choice programs.*** When most providers are private, fraud will usually be far more widespread than in public choice systems, because the private profit motive will encourage it. Fraud has been widespread in the food stamps program, for example—although conversion to electronic benefit transfer, using smart cards, has reduced it. By 1993, waste, fraud, and loan defaults cost federal student aid programs \$3–4 billion a year. This was more than 10 percent of the Education Department's budget—enough to fund the entire Head Start program. The department's inspector general had only enough staff to audit 25 of the 7,400 schools then certified to accept Pell Grants and student loans, yet it had legal cases pending against 300 schools. The big problem was for-profit "proprietary" schools, which often enrolled students, took their Pell Grant and student loan funds, and then failed to deliver any education or training of value. The Clinton administration had to invest significant effort and resources to curb the problem, cut the number of schools eligible to participate back by 28 percent, and bring the default rate on student loans down from 22.4 to 9.6 percent by 1998.

***Vouchers and reimbursement programs can be politically difficult to enact.*** After 20 years of fighting school vouchers, public employee unions react to the word *voucher* like a bull reacts to a red flag. If you introduce this tool, we

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**CUSTOMER  
INFORMATION  
SYSTEMS**

suggest that you call it something else. For instance, a “career opportunity account” would be far easier to sell than a “job training voucher.” You will still face the political hurdles we described earlier, but you may avoid instant vilification.

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**Customer Information Systems give customers who are choosing service providers—with public resources, their own resources, or a combination—information about the quality and cost of each provider, so they can make informed decisions.**

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When reinventors use competitive choice to empower customers, they must make sure that those customers have enough information to make good decisions. This kind of information generally does not exist for many services the public sector funds: education, training, child care, health care, and the like. Private businesses are trying to create it and sell it in some areas. But more often, there is simply a vacuum. Reinventors need to fill this vacuum if they want competitive choice to work.

Information can help transform a marketplace. “In 1923, only 25 percent of the New York Stock Exchange firms provided reports to their shareholders,” Harvard Business School professor Regina Herzlinger points out. After the stock market crash of 1929, Congress created the Securities and Exchange Commission and gave it power to enforce “truth in securities” and regulate trading in securities.

*Firms that trade their securities in inter-state markets must register with the SEC and file regular information reports. . . . [They] must disclose both financial and nonfinancial information in routine reports, including the firm’s financial statements; management’s discussion and analysis of performance; disclosure of the top executives’ compensation; and evaluation of the firms’ various lines of business.*

Because this information is widely available, most buyers are informed, competition over prices is stiff, and the securities market has become more and more efficient, Herzlinger explains.

Even in simpler markets, many people turn to information resources—everything from *Consumer Reports* to college guides to the *Kelly Blue Book Used Car Guide*. Information can have similar value in public sector markets. This is just beginning in public education: increasingly, states and school districts put the data they have on schools together in report cards, which they publish and post on the Web. Private companies are also jumping into the business. Though different states include different information, the range covers:



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- Average test scores and annual gains in average test scores.
- SAT scores.
- Program offerings.
- Data on computer and Internet access.
- Numbers of students, student-teacher ratios, and class sizes.
- Attendance rates, dropout rates, graduation rates, promotion rates, suspension rates, and exclusion rates.
- Numbers of disciplinary incidents and incidents of violence, weapons possession, and drug possession.
- Student turnover rates (percentage of students in the school who were not there for the full year).
- Percentages of new teachers and teachers with five or fewer years of experience.
- Number of librarians and guidance counselors.
- Percentage of students who are not proficient in English.
- Percentage of students who qualify for free and reduced-price lunches.
- Racial composition.

A few jurisdictions have gone one step further and created information centers where parents can get this kind of data, plus help from experienced counselors in sorting it out.

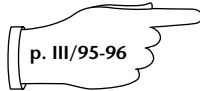
All signs suggest that parents are hungry for this kind of information. In a 1999 national survey done by the Public Agenda Foundation, 90 percent of parents said they favored (63 percent “strongly,” 27 percent “somewhat”) “giving parents more information about how their schools compared with other schools in the area.”

States are also beginning to assemble relevant cost and quality information for adults looking for education or training. Florida was the first state to provide this. Its Education and Training Placement Information Program captures follow-up data on employment, education, military enlistment, incarceration, and use of public assistance for graduates of every public (and many private) education, training, and job placement institution in the state. The data is available at schools, one-stop career centers, and state employment service and training offices.

The most aggressive use of this tool has come in the U.K., where the Audit Commission and other organizations publish comparative performance information on schools, hospitals and ambulance trusts, local governments, police



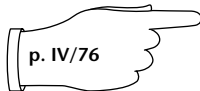
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forces, and fire services. The press, which has dubbed these “league tables,” publishes the results widely. Surveys show that they are extremely popular with the public. When Tony Blair’s Labor Government came to power and launched a formal consultation process to gauge the value of the Citizen’s Charter, it found that “The regular publication of performance information by local authorities, schools and hospitals was considered by many respondents to the consultation exercise to be a major success of the old Charter programme.”

The government is adding performance tables for universities and teacher training institutions, as well as quality of treatment indicators for the National Health Service. They have made most of the performance information available on the World Wide Web.

The British have been particularly aggressive in publishing information about schools, where customers have a great deal of choice. The annual performance tables on schools include exam results, rates of authorized and unauthorized absences, results in pre-and post-16 vocational qualifications, and percentages of students receiving baccalaureate diplomas (the equivalent of high school plus a year of college in the U.S.). Available on the World Wide Web, the performance tables are quite readable. Newspapers publish them every year, often highlighting the best and worst schools in their area and the most improved.



In addition to the hard data, qualitative inspections by teams of trained evaluators, which are performed at least every six years on each of 24,000 public schools in England, produce pages of data. A similar system reports on preschools that receive vouchers or other public funding.

These inspections are quite serious. Conducted by teams of three to eight people (accredited and trained by OFSTED but hired on a competitive contract basis), they last anywhere from three to ten days, depending on the size of the school. Each team is required to have one lay member, who must have no paid experience teaching or managing a school. They must report on four areas: quality, educational standards, financial management, and the spiritual, moral, social, and cultural development of students.

Parents are invited to a preinspection meeting with the team, and each inspection includes a parental survey. The inspection team leader writes a long report, which is made available at the school, and a summary is mailed to every family with children at the school. These reports include qualitative judgments, often turned into numerical scores, on all kinds of things, including “quality of teaching,” “availability of quality teachers,” “extracurricular provision,” percentage of teachers’ time spent teaching, “standards of achievement,” the “leadership of the school,” “efficiency and effectiveness with which resources are used,” “ethos,” “pupils’ attitudes,” and “behavior.”

“The school’s response to the report, known as the Action Plan, must be completed within 40 working days and also be made freely available to par-



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ents,” OFSTED explains.

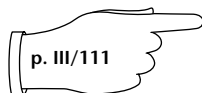
In the U.S., the Massachusetts Board of Education has adopted the British inspection model to evaluate its charter schools. Every five years, when a charter is up for renewal, the board hires a private company called SchoolWorks to evaluate it. Its report serves as the key piece of evidence the board will use in its renewal decision. Ted Sizer, the respected founder of the Coalition of Essential Schools, has been through the process as headmaster of a charter school. He believes it is infinitely more substantive and valuable than either school accreditation visits or the use of standardized test scores to evaluate a school.

After it was elected in 1997, the Labor Government embraced the inspection system and promised to continue improvement efforts then under way. Data from inspections would be added to the performance tables and published “in a digestible format,” it said. “OFSTED will also issue annual statistical profiles of each school. They will include numerical ratings for each subject, based on inspection findings, which set the school’s performance in a national context.”

The government is also committed to baseline assessment at age five, so “it will be possible to measure any pupil’s progress through his or her school career, and so compare that pupil with any other individual or group, whether locally or nationally.” In addition, the government is developing benchmark data, so schools can compare themselves to the best performing schools with similar students.

### Designing a Customer Information System: Do’s and Don’ts

**Get feedback from the organizations you are comparing, before finalizing your measures.** Many provider organizations will find the publication of comparative information threatening. To be fair, give them ample opportunity to examine the measures you propose, critique them, and suggest others. If you work out the appropriate measures in collaboration with providers—and their customers—you will increase the credibility of your product. The British Audit Commission consults with each of 450 local councils and 50 police forces every year before finalizing its performance indicators.



**Don’t compare apples to oranges.** It is hardly fair to compare inner-city schools that teach low-income, disadvantaged students to suburban schools where most graduates will go on to college. Even within the inner city, there are vastly different public schools. Albert Shanker, the late president of the American Federation of Teachers, put it well in one of his monthly columns, about New York City’s first school report cards:



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*What's wrong with comparing schools? Nothing, if the schools are comparable. But newspapers simply listed the schools with top scores and those with bottom scores in reading, math, SATs, etc. Some schools, like top-scoring Stuyvesant, Bronx Science and Townsend Harris, select their students mainly by competitive examination and admit only top scorers. Other schools admit all comers. Comparing these schools is like comparing a group of athletes who have been chosen to compete in the Olympics with a group of students in a typical gym class.*

To give customers the most useful context for making comparisons, it helps to ask them what kind of comparisons they value. For parents choosing a school, for example, comparisons to state and national averages are useful, but even more useful would be bar charts showing how one school stacks up, on a variety of measures, against a group of similar schools in the region. Parents want to compare schools they could actually choose.

**Compare improvement rates as well as current status.** Current test scores, graduation rates, customer satisfaction levels, and the like are important to customers. But the rate at which an institution is improving is also important. Two schools may look about the same when current test scores are published, but one may be losing ground while the other is improving dramatically. A school with low-income students may look far inferior on test scores to one full of affluent high achievers, but if students in the former are making dramatic gains and those in latter are not, who's to say which would be better for a particular child? "A school with a stable, nonpoor population will almost inevitably do well in terms of average score," says Peter Hutchinson, president of the Public Strategies Group (PSG). "But that doesn't mean they are progressing as rapidly as they might."

When Hutchinson served as superintendent of the Minneapolis schools, they published not only average test scores for each school but also gains. If a student was at the 60th percentile in fourth grade but moved up to the 62nd on the fifth-grade test, that was reported as a two-point gain. Rewards for schools were then built around gains, not averages. "This gives everybody a lot of information," Hutchinson explains, "but it also puts the focus on value added, where it needs to be. Because averages, as we know, are a result of many things, some of which the schools can't affect. But gains are something the schools do affect, regardless of where the students start from."

The U.K. is also piloting a method to measure student improvement rates, "to allow fairer comparison between schools with different intakes," such as suburban and inner-city schools. It compares exam results at one age level with results several years later. Each student gets a "value added" measure, which is the difference between his or her results at the second level and the median at that



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level for those who scored the same at the first level. These are then aggregated to give a value-added measure for each school. The government hopes to publish these comparisons for older students (age 12 and above) nationwide by the end of 2000, with younger students to follow.

In Minneapolis, comparing gains “had an interesting virtuous outcome,” says Hutchinson.

*If you had a school at which the average level of achievement was at the 35th percentile, your opportunity to improve was enormous. If you're at the 95th percentile, it's much tougher.*

*I made a table of the average scores: the usual suspects were at the top, and the usual suspects were at the bottom. Then I made a ranking by gain, and the “good schools” were not necessarily at the top, and some of the so-called bad schools were in the middle. All of a sudden the so-called good schools realized that under this system they had to work harder. They couldn't take student learning for granted—which, unfortunately, happens in those schools sometimes.*

**Don't let turnover of customers distort the picture.** If a third of the students in a school are new every year, due to high mobility, it is unfair to compare that school to one with only 10 percent turnover. One solution is to factor out newcomers and publish test scores and the like only for students who were in the school the year before, as Minneapolis does. Another is to get data on the student in his or her previous school and use it to compare improvement rates, as the British are trying to do. (In the interim, the British are publishing a “stability measure” that shows the proportion of students who were at the school when they took their previous exams.)

**If possible, factor in socioeconomic status and similar factors that make the playing field uneven.** The simplest approach is to indicate the socioeconomic makeup of the school or day-care center or other program—for example, what percentage of students qualify for free or reduced-price lunches (as Minneapolis does), what percentage are not proficient in the language (as Massachusetts does), and so on. Publication of improvement rates also helps soften the impact of socioeconomic differences, though it does not eliminate it. (Advantaged students may find it easier to make rapid progress, for example.) The most sophisticated approach would be to develop a credible formula to adjust test results and similar measures for socioeconomic background and then publish both the raw comparisons and the adjusted comparisons.

In Minneapolis, Hutchinson published data that combined socioeconomic status with gains on test scores.



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*I would publish every year a scatter plot that had gains on one axis and socioeconomics along the other—using percentage of free and reduced-price lunches. You saw dots all over the place. There were some schools with lots of poor kids at the top, in terms of gains, some at the bottom, some in the middle.*

*I'd give parents the data on free and reduced-price lunches, but I'd also show them the picture—so they could see that schools with real poor kids were performing very well, so they didn't have to accept socioeconomic makeup as an excuse for poor performance.*

**Don't drown the public in data.** Too many measures can confuse the public, making comparative performance data difficult to understand. “A look at school report cards from other states reveals [that this is] a common problem,” the Texas Legislative Budget Board reports. “Legislators often want more data; however, at the local level, parents and community members may need less in order to get a simplified picture of school performance.” The solution is to craft different versions of a report card for different audiences: a briefer version for the public, a longer one for legislators and other policymakers. The full report can then be made available to public customers who want more data, as an appendix or backup report or on the World Wide Web. The Audit Commission in the U.K. uses roughly 50 indicators for local services and 30 more for police forces, but for the public it boils each of these down to short reports containing 10 to 20 measures. Those who want the rest can find it in an appendix.

**Don't display the comparisons in a way that is unfair to those being compared.** There are many options. Some report cards use grades, giving organizations As, Bs, Cs, Ds, and Fs in a series of areas. Others use a style more like *Consumer Reports*, which indicates if a product is above average, average, or below average. Others, such as *U.S. News and World Report's* ratings of American colleges, rank institutions in order.

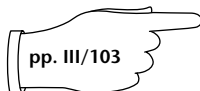
The media and the public love rankings and grades. But the British Audit Commission decided that both of those formats would be unfair, because on some indicators the top-ranked municipality and the bottom-ranked municipality might not be that far apart—a fact rankings and grades might hide. Instead the commission chose bar graphs, which visually show how a municipality ranks but also show the spread between each one. On some indicators there is a wide gulf between best and worst; on others there is very little difference. This is generally the fairest method, in our view.

**Include explanatory material rather than just numbers.** Comparing performance is not cut-and-dried. There are always complicating factors, and



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they should be explained to the public. Perhaps the greatest is that in some cases there is no way to determine what is the “best” or “worst” performance. Some schools may invest heavily in lowering their teacher-student ratio, for example, whereas others may choose to invest instead in computers and science labs. Who is to say which is the better choice? This kind of qualification needs to be explained. Ultimately, parents should choose the school that offers what their child needs, regardless of whether it scores high in every category.



**Don't rest on your laurels; keep improving your performance indicators.** Comparative measurement is difficult and complex. Even a sophisticated organization like the U.K.'s Audit Commission started with some fairly crude measures, simply because that was all that was practical at first. But every year it improves them.

As you begin, the organizations you are comparing will complain bitterly that the entire exercise is unfair. They will point out what is wrong with every measure you use. The solution? Invite them to help you find better measures. When they argue that you're measuring the wrong things, ask them what the right things would be. The wonderful thing about measuring performance is that once you start, pressure from stakeholders helps you get better and better at it.

**Publicize performance data widely, to maximize its impact.** The point is to help customers use the information to make good choices. To reach the most people, you need to use as many channels as possible: the media; the Internet and Web; publications distributed to libraries, schools, and other public offices; information brokers; and mailings.

**Don't release comparative data without briefing the media.** The media will be tempted to use the data to beat up their local schools or other institutions. You cannot stop this, but you can minimize it by carefully explaining the limits of the data you present. The Audit Commission carefully explained that its indicators showed the differences between local councils, but it did not explain why those factors arose. For that, reporters would have to look further. In the first year, the commission was pleasantly surprised by the coverage. As the commission's Paul Vevers explained:

*About 40 percent of the media coverage was relatively positive, focusing on good performance. About one-third of it was mixed, highlighting both good and bad performance. And in one-third of cases, newspapers did what councils and police forces had feared they would do and focused only on poor performance—whether the council or force merited it or not.*

**Build into your system the capacity to help organizations improve**

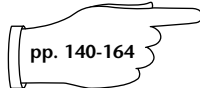


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**their performance.** In the U.K., the Audit Commission works hard to help local governments improve. It holds conferences and seminars, meets with local councils, publishes in-depth management guides profiling best practices, and issues guides that help auditors steer local authorities toward best practices. Similarly, the British system of school inspections is designed not just to report on the quality of schools but also to help them improve. This is a critical component of any information system whose ultimate purpose is improvement.

**Don't forget to audit the data, just like any other form of performance measurement.** If the market is truly competitive and providers face consequences, some of them will cheat. Others will make not-quite-illegal efforts to make sure they look good—prepping their students for exactly what will be on exams, putting on a special show for inspectors, and so on. This is unavoidable; it is human nature. One of the authors recently bought a new car, for example, from a dealer whose company systematically follows up every interaction with a telephone survey to measure customer satisfaction. Salesmen and service people at the dealership have learned how to coach their customers—advising them that someone will call and encouraging them to explain that everything was “excellent.” To combat these



### RESOURCES ON INFORMATION SYSTEMS

United Kingdom. Audit Commission. *Local Authority Performance Indicators; Using Your Indicators; Watching Their Figures: A Guide to the Citizen's Charter Indicators; How Is Your Council Performing?* and other publications. The annual Local Authority Performance Indicators are available on the Web at [www.audit-commission.gov.uk/](http://www.audit-commission.gov.uk/) (click on “National Reports,” then “Online Catalogue”), or from The Stationery Office Publications Centre ([www.itsofficial.net](http://www.itsofficial.net)), P.O. Box 276, London SW8 5DT. Phone: 0170 873 9090. Fax 0171 873 8200. The other publications are available from the Audit Commission at 1 Vincent Square, London SW1P 2PN. Phone: 0171 828 1212. Fax: 0171 976 6187.

United Kingdom. Department for Education and Employment. Performance tables on schools going back to 1994, as well as papers discussing the performance tables, the value-added pilot program, and other performance measurement issues, are available at [www.dfes.gov.uk/performs.html](http://www.dfes.gov.uk/performs.html).

United Kingdom. Office of Standards in Education (OFSTED). Information on the British inspection system, as well as all inspection reports and annual summaries of data from those inspections, are available at [www.ofsted.gov.uk](http://www.ofsted.gov.uk).



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perfectly normal impulses, auditors must spot-check measurement methods and data regularly.

For more information on measuring performance, see Chapter Eleven.

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## BROKERS

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**Brokers help customers find and evaluate information about different providers and choose which one would be best for them.**

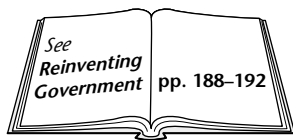
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When people want to buy a house, few scan the want ads. The housing market is large and complex, and most people want help navigating it. So they contact a real estate broker.

The same is true of the stock market, the commodities market, and other complex markets. Some markets for public services are complex enough that people need brokers as well. Consider adult education and job training. In most states there are dozens of different programs, but how would anyone know where to find them? The typical person looking for training in a particular field would have no idea where to look.

To deal with this and other problems, the Michigan Job Training Coordinating Council dreamed up a novel solution in the late 1980s: it designed a system of “Opportunity Stores” through which any citizen could get information about all education, training, and job placement services in the state. They would be small offices sprinkled throughout the state, in visible places such as main streets, malls, and community colleges. Though the effort was stopped in its tracks when Governor Jim Blanchard lost the 1990 election, his former commerce director, Doug Ross, took it with him to Washington in 1993 when he became assistant secretary of labor for employment and training. The Commerce Department created a grant program to help states create systems of one-stop career centers built on the Michigan idea. Today most states have career centers, though few resemble the original Michigan model.

About the same time, Texas created an excellent information and broker system for child care. Its Child Care Management Services program contracted with one organization in each of 27 regions to act as a broker, to help parents choose the best child care available and receive any public subsidies they qualified for. Parents could visit the brokers’ offices in person or call on toll-free phone lines. This gave low-income parents an easy way to find quality child care, while giving them access to any certified provider in their region. A sophisticated information technology system matched funding programs with client eligibility categories, maintained databases of customers and providers, and reimbursed providers for care. The brokers even certified



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providers who met the program's quality criteria, gave them classroom materials, and provided scholarships so they could train staff.

The Texas program, a national model, won an Innovation in State and Local Government award from the Ford Foundation. But not all broker systems have to be that sophisticated. At one time Connecticut had a child care brokerage service that consisted of one person for each region of the state whom parents could call to get information about every provider certified by the state. The broker visited providers regularly to ensure that they were not breaking state rules about the number of children per child care worker and the like. Some school districts that offer public school choice also create information centers where parents can learn about the options available and get help sorting through them.

In some voucher and reimbursement programs, use of a broker is mandatory to access the public subsidy. In Texas, for example, parents had to apply for a subsidy through the broker's office, though they could do so by phone or mail. In job training, some experts believe people should be required to see a counselor before being given vouchers (or other forms of funding), so they can get good advice about which skills are in demand in the marketplace. In many areas, however, use of brokers can be purely voluntary.

### Designing a System of Brokers

In designing a system of brokers, we recommend that you keep a number of pointers in mind:

***The same organization does not have to provide both the information and the brokerage services.*** In fact, it probably makes sense to separate the two. The information system should be comprehensive and seamless, available to all. Hence one organization—or one partnership—should manage it. But brokers should be numerous and can be operated by many different organizations.

***Give customers a choice of competing brokers.*** In brokerage services, as in most services, competitive choice will stimulate providers to do everything in their power to satisfy their customers. You can use managed competition to contract with brokers, as Texas does in its child care system and Massachusetts has for seven of its one-stop career centers. You could also use vouchers or reimbursements and let brokers compete directly for their funding by attracting more customers.

***Don't let brokers also provide services that compete with those to which they refer customers.*** If a training or educational provider also functions as a broker, it will have an incentive to refer people to its own training or classes. It's best to avoid this conflict of interest.



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***Don't assume all brokers' offices should provide identical services.***

A comprehensive system might offer full-service brokers, satellite offices with fewer staff, and very small offices in community colleges, libraries, and government buildings where information, but not counseling, is available. This way you could locate an office near most communities but keep costs under control.

***Brokers can provide some services for free while charging for others.*** Usually the basic functions of a broker—helping people sort through information about competing schools, day-care centers, training programs, and the like—are free to customers. But many one-stop career centers are allowed to charge for additional services, such as holding job fairs for businesses or providing extended counseling to job seekers. The advantage of this approach is that it encourages providers to get creative about meeting their customers' needs, so as to bring in more customers and more revenue. You must ensure that this does not entice brokers to let the quality of their free services lag, however, by requiring regular measurement of quality.

***Information technology is often critical to the success of the system.***

Often, customer information systems must combine multiple funding streams for each customer. When Texas created its Child Care Management Services system, for example, it combined 14 different funding programs, which served 22 categories of eligible clients. Information systems must report on hundreds, if not thousands, of providers. And multiple brokers—some public, some private—must use the system, without much variation in the access and quality they offer customers. This level of complexity requires sophisticated information technology, which costs money. In their successful application for an Innovation in State and Local Government award, the founders of the Texas program identified the cost of such a system as one of the biggest obstacles they had encountered.

***You may have to market the system.*** To let potential customers know about the system, you will probably have to market it. This is an unnatural act in the public sector—but in a world of choice and competition, that attitude is outdated. It would be a terrible waste to build a sophisticated information and brokerage system and then to discover that most customers don't know it exists.



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# Notes

All quotations that are not attributed in the text or in these endnotes are from interviews with the authors or their associates. Only in cases where there might be some confusion about the source of a quotation have we indicated in a note that it came from an interview.

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