

March 1995

Education Policy Analysis Archives 03/07

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Education Policy Analysis Archives

Volume 3 Number 7

March 31, 1995

ISSN 1068-2341

A peer-reviewed scholarly electronic journal.

Editor: Gene V Glass, Glass@ASU.EDU. College of Education,
Arizona State University, Tempe AZ 85287-2411

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Review of Eric A. Hanushek's *Making Schools Work*

**Eric A. Hanushek. *Making Schools Work: Improving Performance and Controlling Costs*
(Washington, DC: The Brookings Institutions, 1994) (200 pp. \$34.95, paper \$14.95)**

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Abstract:

Making Schools Work is about the economics of educational policy. The Brookings Institution, publisher of the volume, is among the most respected institutions of economic policy research in the United States. The analysis and recommendations offered by Eric Hanushek, Professor of Economics at the University of Rochester, are based on original research financed by the Pew Charitable Trusts, and carried out by a distinguished group of economists.

"Despite ever rising school budgets, student performance has stagnated," writes Hanushek, and *Making Schools Work* addresses this single problem. To reverse this tendency, Hanushek proposes three broad principles of reform: increase the efficiency of resource use, use performance incentives on schools, teachers, and administrators to increase the effectiveness of teaching, and increase the rate of experimentation with educational alternatives, replacing less effective techniques and organizational forms with more effective ones Hanushek calls this "continuous learning and adaptation." In defense of this clearly economic response to the problem of educational reform, Hanushek writes "Some have argued that schools are too important to be subject to economic rigor. We argue that, on the contrary, they are too important not to be." (p. xvii)

To support the assertion that schools have become economically inefficient, Hanushek

documents the fact that real per pupil expenditure has increased at the rate of about 3.5% per year (p. 31), the ratio of non-instructional to instructional expenditure increased from less than 20% to more than 50% of total school costs, while such achievement measures as SAT scores, reading achievement, and mathematics achievement have shown virtually no changes (pp. 41-43). Nor can this lack of educational output be explained by increases in the fraction of minority students, since the trends hold for whites alone, and minorities have made significant gains since 1980 in all these performance measures (pp. 41-43).

Some will find the proposals offered in *Making Schools Work* harsh, economic and unfeeling, since Hanushek appears to be asking schools to conform to standards of efficiency appropriate to the private sector and to activities less imbued with social meaning than the training of our youth. Others will find *Making Schools Work* excessively deferential to the vast bureaucracy of public schooling, its proposals tentative to the point of impotence in the face of the entrenched interests that benefit from the maintenance of the educational *status quo*.

I believe *Making Schools Work* in fact falls squarely in the second category. Hanushek makes pro forma bows to the issues that economic theory tells us are likely to be important in improving educational efficiency, but is so mindful of not importuning the educational establishment that the proposals lack any bite. For instance, Hanushek proposes that teachers be subjected to merit pay and performance contracts. However he proposes "two-tier" employment contracts, with incumbent teachers following traditional incentives, but newly hired teachers being subject to innovative incentive schemes. There is no estimate of the amount of time it will take for such contractual forms, assuming they are effective for new teachers, to result in quantitative improvements in educational performance. He gives no economic reason for avoiding immediate implementation of incentive schemes for teachers, but is ever attentive to the political resistance such measures encounter in the "real world" under current conditions.

The reform proposals in *Making Schools Work* flow from the standard economic notion that an industry will deliver its product efficiently and flexibly to its customers if there are many competing providers, each having an incentive to produce efficiently with the prospect of positive reward for success, and disappearance for failure. In this case the product is "educational services," while the customers are students, parents, and voters. However the usual economic mechanism for implementing effective incentives is a competitive product market with consumers empowered to choose among providers according to their personal tastes.

However, in *Making Schools Work*, Hanushek never even mentions the fact that this is the standard model for the delivery of services, and never gives reasons why such a model is not applicable in the delivery of educational services. The question of "school choice" is mentioned favorably at one point (pp. 104-111), but is buried in a long list of possible "incentives" available to the educational system, including merit pay for teachers, merit schools and school-based management. One would hardly expect this approach from a group of economists working under the aegis of an economic policy institute such as the Brookings Institution. Rather, one would expect (and I would have welcomed) a detailed treatment of the issue of competitive educational delivery as a basic instrument for the achievement of the goal of improving the performance of the system.

There are, of course, many problems in transforming American education into a competitive system attuned to the needs and wishes of parents and students, and it may very well be that a fully competitive system would be undesirable. But it is the job of economists to bring the relevant considerations before the public eye, and to address the issues in the same format as other issues in the provisionment of publicly financed services. *Making Schools Work* has simply

ducked these institutional and politically charged issues, producing a document that points in the right direction, but allows "political realism" to stand in the way of forthright, economically defensible, policy advice.

About the Author

Herbert Gintis is Professor of Economics at the University of Massachusetts at Amherst.

He has jointly authored with Samuel Bowles (University of Massachusetts) *Schooling in Capitalist America: Educational Reform and the Contradictions of Economic Life* (New York: Basic Books, 1976), *Democracy and Capitalism: Property, Community, and the Contradictions of Modern Social Thought* (New York: Basic Books, 1986), and is co-editor with Samuel Bowles and Bo Gustafsson (University of Uppsala) of *Democracy and Markets; Participation, Accountability, and Efficiency* (Cambridge: Cambridge University Press, 1993). In addition he is co-author with Christopher Jencks (Northwestern University) et al. of *Inequality: A Reassessment of the Effects of Family and Schooling in America* (New York: Basic Books, 1972), and is co-editor with Gerald Epstein (University of Massachusetts) of *Macroeconomic Policy After the Conservative Era: Studies in Investment, Savings, and Finance* (Cambridge: Cambridge University Press, 1995).

He has also written many journal articles, has been Visiting Professor of Economics at Harvard University and the University of Paris, Visiting Professor of Sociology at Harvard University, and a Fellow of the Institute for Advanced Study, Princeton, New Jersey. He is currently writing two books with Samuel Bowles (one on "new microfoundations of economic theory," and the other an application of this theory to economic policy). He is currently co-editor of the journal *Metroeconomica*, and cochair with Professor Paul Romer (University of California, Berkeley) of the MacArthur Foundation research project "The Human Side of Economic Analysis: Economic Environments and the Evolution of Norms and Preferences."

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