



# THE BUSINESS OF EDUCATION: MEETING THE DEMANDS OF A STRONG ECONOMY THROUGH EDUCATIONAL CHANGE

**E**DUCATION REFORM IS an important issue not only for students, parents and educators, but also for the businesses that will one day employ today's students. With this in mind, the Federal Reserve Bank of Dallas hosted a public policy conference, "The Business of Education: Meeting the Demands of Strong Economy Through Educational Change," on October 17, 1997. The conference brought together educators, policymakers, academics and members of the business community to discuss the current condition of the educational system, the goals and standards of education, popular educational reform issues and business' stake in the outcome.

As conference participants made clear, the current condition of education in Texas raises serious concerns about the quality of tomorrow's workforce. Tom Luce noted that on national standardized tests only 26 percent of Texas fourth-graders are ranked proficient in reading and less than 20 percent are ranked proficient in mathematics. Thirty percent of high school graduates who enter Texas colleges cannot pass a basic academic skills test and must take remedial

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## Featured Speakers

**James R. Adams**, Chairman of the Board, Texas Instruments Inc., Dallas

**Lynne V. Cheney**, Distinguished Fellow, American Enterprise Institute, and Cohost, *Crossfire* (CNN), Washington, D.C.

**Pascal D. Forgione, Jr.**, U.S. Commissioner of Education Statistics, National Center for Education Statistics, Washington, D.C.

**Caroline M. Hoxby**, Morris Kahn Associate Professor of Economics, Harvard University, and Research Fellow, National Bureau of Economic Research, Cambridge, Massachusetts

**Gary Huggins**, Executive Director, Education Leaders Council (ELC), Washington, D.C.

**Sandy Kress**, Partner, Akin, Gump, Strauss, Hauer and Feld LLP, Dallas

**Robert B. Lane**, President, NationsBank Texas, Dallas

**Myron Lieberman**, Chairman, Education Policy Institute, Washington, D.C., and Senior Research Scholar, Social Philosophy and Policy Center, Bowling Green State University, Bowling Green, Ohio

**Tom Luce**, Founder and Partner, Hughes & Luce LLP, Dallas

**James M. Mansour**, President, National Telecommunications, Austin

**Jill Shugart**, Superintendent, Garland Independent School District

**Robert F. Smith**, President, Texas Council on Economic Education, Houston

**Diane R. Spradlin**, Director of Community Affairs, EDS, Plano

**John H. Stevens**, Executive Director, Texas Business and Education Coalition, Austin

**Lori L. Taylor**, Senior Economist and Policy Advisor, Federal Reserve Bank of Dallas, and Adjunct Professor of Economics, Southern Methodist University, Dallas

**Judy Zimny**, Principal, L.L. Hotchkiss Elementary School, Dallas Public Schools

courses. It is not particularly reassuring to note that despite these weaknesses, Texas ranks in the middle of the pack nationally on standardized tests.

Building on a broad consensus about the need for educational reform, conference participants addressed three questions at the heart of the education debate: Who should decide how students will be educated? What's the best road to reform? How should we fund education?

## Who Should Decide How Students Will Be Educated?

Students and their families have an obvious role in educational decision-making. The current debate rests on the issue of whether any other party—namely, government—should also be involved in the decision.

Conference panelist Lori Taylor offered three economic rationales for government participation in the educational decisions of parents and children. First, education may generate benefits to society that exceed those to the students themselves. For example, from the student's perspective, the primary benefit of additional education is an increase in take-home pay. However, from society's perspective, the benefits also include any increased taxes that the students will pay as a result of their additional education. Furthermore, all other things being equal, communities with lots of educated residents grow faster than other communities and are more likely to attract new firms. No student thinks about the impact additional schooling might have on the community's economic growth or its attractiveness to business. Because students and their families don't consider all the benefits when they make an educational decision—like whether to go on to college or to drop out of high school—they might tend to invest less in education than is optimal from society's point of view. Thus, society has an interest in encouraging people to invest in more education than they would privately choose to do.

The high cost of education provides a second economic rationale for government participation in the decision.

The full cost of providing a child with a high school education can exceed the sticker price of a top-of-the-line Lexus. However, without government assistance, it would be much harder to get a loan to pay for that high school education than it is to get a car loan. The lack of collateral would lead lenders to charge an especially high rate of interest for an education loan—if you could even find someone who would lend money to an inner-city kid with no credit history. Thus, government has a role in making the education credit market work—either by helping finance an education directly or by subsidizing private loans for education. However, there is a catch: just as the private lender has every right to make sure that the money from a car loan is used to actually buy a car, the government has every right to ensure that a student uses an education loan to buy schooling.

The third possible rationale for government participation in education lies in charity. If society feels charitable toward children (or toward their parents), then financing of education is a tool for redistributing some of society's resources in their direction. Although students and their families might prefer cash, they receive schooling because society is paternalistic. A similar argument explains why poor people are given food stamps rather than cash; society wants the recipients to consume what *it* thinks is good for them, not necessarily what *they* think is good for them.

Taylor argued that acceptance of any of these rationales implies that government has a legitimate role in educational decision-making. However, it is not obvious which level of government—federal, state or local—should fill government's role in education. For example, panelist Lynne Cheney argued that national educational standards "may be a good idea in the abstract [but] you don't get the common-sense input of informed citizens when you develop these things at that high, etherial level." Cheney, who favors less centralized decision-making, claimed that "many states have gone through rigorous debates about what standards should be...and the results are pretty good."

## What's the Best Road to Reform?

Conference panelists discussed a variety of reforms to the current educational system. Some panelists stressed the benefits of fostering market-based competition to traditional public schools, while others stressed the benefits of reforming the public school system from within. A recurring theme among the conference participants, regardless of their perspective on reform strategy, was the need for a mechanism to measure school successes (and failures).

**Market-Based Solutions.** Myron Lieberman argued that a competitive market system is better than government operation of the school system. In his opinion, the problem is that “public schools are not part of a system where improvement is mandatory to survive.” He favors privatizing the public school system altogether.

Caroline Hoxby discussed some of her research on the positive effects of enhancing school competition through vouchers.<sup>1</sup> She finds that, first, “public schools really can and do respond to competition...by really improving student performance.” Second, the response of public schools to the voucher programs depends on the fiscal incentives: if the money does not follow the student, then voucher programs have little impact on performance in public schools. Third, she finds that with voucher programs, “parents are much more involved, not just in the voucher schools and the private schools, but even in the public schools...because parents are making more active choices.”

**Solutions From Within the System.** While voucher programs are intended to improve public school performance through increased competition with private schools, charter schools enhance competition within the public school system. Charter schools offer groups the opportunity to create and operate a public school under a contract with the local school board or other public entity. These schools are freed from some state rules and regulations in exchange for a commitment to achieve certain outcomes.

Arizona is considered one of the

leading states in the charter-school movement, with more than 250 charter schools—about 10 percent of the U.S. total. Gary Huggins discussed the state’s program, which he said has the most liberal and open charter school law in the country. Huggins pointed out that charter schools, like vouchers, are putting pressure on traditional public schools to find innovative ways to attract students.

As traditional public schools respond to competitive pressure from programs such as vouchers and charter schools, they are also called upon to reform from within through increased accountability. Accountability reform implies that there are consequences for schools and teachers, both good and bad, depending on student performance. Sandy Kress summed up the need for accountability in public schools when he said, “People feel the need to respond when they are measured; people respond when there are consequences for the measurement.”

**Measurement.** Many conference participants stressed the need for good information about the performance of students and schools. Kress noted, “If we don’t know where each child is in terms of their attainment...then we’re totally flying blind.” Pascal Forgione emphasized the need for a national or international standard for measuring performance, because otherwise, “once you start making progress...no one’s going to believe you.” Lieberman argued that, to be credible, tests of student performance need to come from outside the educational establishment.

Conference participants suggested that one of the most important roles for business in educational reform was in the area of measurement. Accountability is integral to the profitability of firms, and panelists agreed that business could bring its expertise in measuring success to the educational system. As Jim Adams put it, “We in business look at all things from a measurement perspective.”

## How Should We Fund Education?

The conference participants agreed that school finance is a large and grow-

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ing problem for Texas. Robert Lane reminded the audience that Texas' state and local governments spend about \$19 billion annually on public schools, and \$11 billion of those funds come from taxes on business. Jill Shugart added, "The statewide student population of Texas is growing at the rate of 70,000 to 80,000 children per year. That fact alone requires the infusion of \$1.4 billion in new revenue each biennium just to maintain the same dollars per child."

Equity and local control of school finance were important issues for all three members of the school finance panel. Lane discussed the problems created by wide differences in taxable wealth across school districts. Shugart attributed Texas' equity problems to overreliance on the property tax. "Equity," she stated, "is based on the notion that children who hail from the property-poorest school districts in the state are nonetheless entitled to an adequate education." She expressed concern about local ability to finance the unequal facilities needs of Texas school districts. "Equity is not going to be achieved unless the facilities issue is factored in," she said. Taylor argued that because "the Dallas worker of tomorrow may be in Houston or Plano schools today...it may be appropriate to shift more of the [school tax] burden to the state level." However, she also emphasized, "Parents must retain choice about the level of education spending."

The structure of the school finance system also received a great deal of attention. Both Lane and Taylor stressed the need for a school finance system that does not favor one type of business over another. In particular, Lane argued against overreliance on business property taxes (which fall disproportionately on capital-intensive firms) and corporate franchise taxes (which fall disproportionately on corporations).

Finally, Taylor pointed out that the primary beneficiaries—students and their families—bear much of the cost of education under the current system. "At the high school level nationally, 55 percent of our school resources come from the students themselves in terms of the value of their time," she noted. Parents also pay school property taxes and pick

up much of the burden of taxes that originate at the business level. "No matter how much the legislature would like to argue that a tax that is nominally assigned to business is going to be borne by business," she said, "much of it actually passes through to the employees and the customers of the firm."

## Conclusions

The conference focused on the problems with public education in the United States. However, the picture is not all bleak, particularly in Texas. There are definite signs of improvement. Only two other states made more progress than Texas between 1990 and 1996 on the National Assessment of Educational Progress test in eighth grade mathematics.

Because schools transform today's students into tomorrow's skilled workers, continued progress is vital to ensure the future economic growth of our region. The skilled-labor pool has been cited as one of the most important factors, if not *the* most important factor, in a firm's decision to operate in Texas.<sup>2</sup> In the words of Tom Luce, "Business really must go, and will go today, to where the skilled workers are...The fundamental challenge facing our state is that we're going to run out of skilled workers here awfully soon."

— Marci Rossell  
Lori L. Taylor

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## Notes

<sup>1</sup> The details of school voucher programs vary, but essentially students are given a tuition subsidy for the private school of their choice, with for-profit and denominational schools often excluded.

<sup>2</sup> For a further discussion, see the article, "Silicon Prairie," in the May/June 1997 issue of *Southwest Economy*.