READINGS

How to Dismantle the Factory

Reinventing Public Education
by Paul T. Hill, Lawrence C. Pierce, and James W. Guthrie
(The University of Chicago Press, 1997) 267 pages.

Reviewed by Mark Schneider

In response to decades of high levels of immigration, the dominance of assembly line production techniques, and the sway of scientific management, most school systems in the United States had adopted the "factory model" of education by the 1920s. Despite remarkable changes in technology and demographics since that time, the system of education put into place earlier in this century has not changed much. However, the days of the "factory" model seem to be numbered. Policy analysts, parents, and taxpayers all seem dissatisfied with the performance of the existing system because it does not produce graduates who possess the skills necessary to participate in the twenty first-century economy.

Richard Hofstadter noted long ago that Americans love to tinker with the structure of their local government. Given the objective problems facing the schools and our love of tinkering, it is not surprising that the United States is once again in the midst of a strong education reform movement. In an ever intensifying debate, characterized by an increasing number of alternative approaches to schooling, Paul Hill and his colleagues advocate "contract schools" as a correction for the ills of the American education system.

Hill and his colleagues argue that there is growing consensus on what constitutes good schools. According to Hill et al., good schools focus on student learning and the needs of children by personalizing education and creating long-term relationships between teachers and families. Good schools treat teachers as professionals, are organized to encourage high performance, and are given incentives to use resources efficiently so that success rather than failure is rewarded. To achieve these goals, Hill et al. forcefully argue that the school building must be viewed as the basic management unit. Once we focus on the centrality of the school building, then, they argue, we can study schools as "whole organizations," using the same analytic techniques used to study effective businesses and "real communities."

Schools currently do not adhere to those organizational principles. Rather, in an education system defined by detailed political and bureaucratic controls, schools are rule-bound, rights-driven, and fragmented into specialties. As decision-making has been centralized in school district bureaucracies, schools, as the units for delivering services, have lost the ability to focus on their core mission of teaching children.

To cure those problems, Hill et al. propose replacing the existing system of politically micromanaged education with a system of school-specific agreements (contracts) that would define the school's mission, guarantee public funding, and describe in detail the means for holding schools accountable. The contract would be negotiated between the school board, which would surrender detailed control over expenditures and policy, and the school, which would provide a focused and distinctive instructional program. The school would be given freedom over curriculum, hiring, and the allocation of expenditures in return for meeting standards of fiscal probity, academic performance, and parent/student satisfaction.

In Hill et al.'s view, contracting, by increasing the range of schools among which parents can choose and by disciplining schools that fail with contract termination, will increase both allocative and productive efficiency. But compared to other market-like approaches to education, especially vouchers, Hill et al. argue that contracting retains the benefits of political accountability. According to Hill et al., by creating clear, reliable, and enforceable relationships between school operators and public officials, elected school board members would be held accountable by parents for school failures in ways that supplement the discipline of the market.

In addition, contract schools would be "real communities," characterized by common values, trust, shared sacrifices, agreed upon norms of behavior, and reciprocal obligations. By building community, contracting will turn parents, teachers, and administrators into allies working together for the education of the children. The ability of contract schools to create effective communities, something that most educators and analysts feel is essential to education, distinguishes contracting from other reforms, especially vouchers, that seek to increase competition in the market for education, but are not directly concerned with community-building.

The book is filled with "shoulds" of two sorts. First, it provides information about how one should go about contracting. Indeed, the entire second half of the book and several appendices are devoted to suggestions about how to implement such a strategy. The second type are lists of what we should expect once the system of contracting is put into place. For example, once school boards are no longer charged with the day-to-day

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minutia of micromanaging schools, then elections for school board "should" attract a new kind of candidate—one more concerned with school quality and less concerned with patronage or political opportunities.

As with any good book, the arguments have both pluses and minuses. On the plus side, the book provides an excellent and accessible review of the myriad problems in the current system of schooling and the alternatives that have been proposed by reformers to correct those problems. In addition, the idea of contracting itself has much merit. To the extent that contracting works, it would increase the options available to parents, it would reward educational success and punish failure, and it would focus on creating effective education communities within school buildings.

On the minus side, the authors fail to anticipate the difficulties of developing the performance benchmarks by which success will be measured. Contracts have already been used extensively and successfully to deliver other local services—street maintenance, garbage collection, etc. Indeed, many schools and school districts have experience with the use of contracts for parts of their mission other than education, such as cafeteria and custodial services. But the success of contractual delivery of those services has been dependent on the development of concrete benchmarks to judge performance, a difficult task in the case of the educational mission of schools.

I believe that Hill et al. underestimate the ease with which we can evaluate the product of schools. First, education is an incredibly diverse "product" with parents and society wanting many different things from the schools. While contracting is designed specifically to allow more flexibility in meeting diverse demands, establishing benchmarks may be quite difficult given the multidimensionality of schooling outcomes. In addition, the debate about how to measure school performance and the independent effects of schools on student performance has been raging since the famous Coleman report of the late 1960s.

A second difficulty with the book is its evangelical tone. According to the authors, almost every known problem in schooling can be addressed by contracting: Academic performance is declining—contract out; teachers are unhappy—contract out; no viable school community—contract out; asymmetric information between educational professionals and parents—contract out; concerned about equity, efficiency, diversity, stability—contract out.

The evidence offered in support of the benefits of contracting is often weak. In fact, very little analysis or solid evidence is presented in the book and arguments in favor of contracting are often made by analogy. For example, to support their argument that contracting would create "real organizations," Hill and his colleagues develop a superficial theory of the firm and apply it to the school under contracting. For example, in just two pages (57 and 58), Hill et al. describe a real organization as having "real ideas" about how to service students, as being active rather than passive, and as being in control of its own funds and resources. After devoting one paragraph to discussing how firms are designed to solve coordination problems, the authors conclude that "the theory of the firm can provide important new perspectives on schools. It can help us clarify schools' purposes and understand the internal relationships among people who perform key functions, such as teaching, investment in improvements, quality assurance, and client relations." All of this may or may not be true, but Hill et al. do not provide any real guidance on how to develop and apply their insights.

Third, Hill et al.'s place in the market for school reform reminds me of the Microsoft versus Apple debate. Many people believe that Apple had a far superior operating system than Microsoft, but despite the quality of the product, Apple lost the market. Contracting may, on some level be the superior product ,but the evidence suggests that it has not convinced many "customers" in the educational reform market.

While reform movements have been a characteristic of education throughout this century, never has the range of alternatives under active consideration been quite as large. Historically, reform movements focused on curricula and training. Many of today's popular reforms, such as school-based management and the standards movement, still focus on improving the quality of education in the existing public schools. However, in the 1990's, school reform proposals have emphasized expanding the range of educational service providers from which parents can choose. Indeed, the two reform movements that currently attract the most attention, vouchers and charter schools, are specifically designed to change the balance of power between public schools and parents in the choice of schools.

Voucher programs are in operation in an increasing number of cities. Milwaukee and Cleveland have publicly funded vouchers, and privately funded voucher programs are found in an even greater number of cities, including New York City, Albany, Indianapolis, and San Antonio. However, charter schools seem to be the "reform de jour." About half the states now have charter school legislation and in his 1998 state of the union speech, President Clinton specifically called for a large increase in the number of charter schools in the country. Of course, missing from this list of reforms is contract schools.

Hill et al. devote a lot of energy to explaining why contracting is better than the alternatives. For example, according to Hill et al., school-based management changes decisionmaking at the school level but leaves the centralized structure of school boards and state education departments in place. Similarly, because the standards movement also leaves the structure in place, it too will ultimately fail. While vouchers give parents the resources to send their child to a preferred school, vouchers neglect the institutional development necessary to create effective schools.

Hill et al. provide important insights into the limits of those popular reforms. However, they have a more difficult task in their analysis of the mushrooming charter school movement. There is substantial overlap between charter schools and Hill et al.'s model of contract schools—in fact the differences are often negligible. The big difference according to the authors is that charter school legislation limits the number of schools operated by private groups leaving the majority of schools in the public bureaucracy. In contrast, contract schools would reshape the entire system. Yet the distinctions that Hill et al. draw between charter schools and contracting schools seem to me forced and even unnecessary. It is easy to anticipate that eventually a number of charter schools will adopt many of the contracting procedures that Hill et al. advocate (in fact, some already have). Thus, charter schools may ultimately provide a milieu in which contracting can finally expand to the extent that Hill et al. would like—an expansion that has so far not occurred.

Moreover, the problem Hill et al. have with charters is in some degree self-correcting. As time goes by, more and more states and communities likely will adopt charter legislation and the number and range of charter schools will increase.

Indeed, the charter school movement is gaining speed daily—there may be as many as one thousand charter schools in operation today and the number is growing rapidly. Moreover, many of the other reform movements that Hill et al. criticize also have hundreds of schools enrolled; and many are gaining adherents.

As a consequence of these adoptions, proponents of each of the reform movements can point to real schools enrolling real students and working through the problems of delivering a quality education. In contrast, Hill et al. offer descriptions of hypothetical contract schools—because at present very few examples of successful contract schools actually exist. In short, the market seems to be endorsing many other reforms to redress the failures of public education while contracting has not attracted the attention of most educational reformers.

Hill et al. are keen on the market to weed out products that people don't want. I wonder what they make of the present failure of any significant number of schools to adopt their contracting approach?

WRONG CONCLUSIONS OF A REAL PROBLEM

Closed Doors, Opportunities Lost
by John Yinger
(Russell Sage Foundation, 1995) 452 pages

Reviewed by Edwin S. Mills

This book reports the results of a large fair-housing audit experiment sponsored by the Department of Housing and Urban Development executed by the Urban Institute and a group of scholars at Syracuse University, under Yinger's professional direction. The audits were conducted in 1989.

Such audits are carefully controlled experiments, among the best experimental work done by economists. The basic idea is simple: Two matched pairs, either black and white or Hispanic and white, inquire of realtors or building managers about buying or renting advertised dwellings. Each of the two matched pairs presents carefully matched characteristics—income, family status, assets, etc.—and records carefully many aspects of their treatment at the interview: consistency of responses, numbers and characteristics of alternate dwellings suggested, whether calls are returned, etc. Carefully trained auditors conducted large numbers of interviews in twenty-five large metropolitan areas.

It is the second housing audit financed by HUD. Many others, mostly small scale and less scientific, have been carried out. But Yinger's study is the largest and apparently the most carefully designed and executed of all the audit studies.

Yinger presents and analyzes many indexes of discrimination against blacks and Hispanics based on the audit results. Invariably, the data indicate substantial discrimination, in most cases more against blacks than against Hispanics, in every aspect of the search for dwellings. Examples include the number of locations of units shown or recommended, the number of callbacks and requests for information about income, and the racial composition of recommended neighborhoods.

It is certainly possible to argue about specific measures and interpretations. However, I believe that the cumulative weight of evidence, from this and other audit studies, is that these two minority groups are less well treated by housing market agents than are whites. Much evidence, reviewed by Yinger, indicates that racial and ethnic discrimination diminishes every decade, but more optimism than I can muster is required to believe that housing discrimination has disappeared since 1989. Fair-minded Americans must make their peace with the situation.

The last four chapters of the book are devoted to government policy suggestions. As with many authors who feel strongly about an issue, Yinger's suggestions bear little relationship to his findings. Yinger carefully calculates the higher housing search costs borne by the minority groups due to discrimination. But he jumps much too easily from discrimination to segregation to earnings reductions. Yinger certainly knows that many groups voluntarily self-segregate, and that is presumably as common with these two minority groups as with others.

Yinger presents no evidence as to how much less satisfactory or more costly housing is to the two minority groups as a result of housing agent discrimination. At one point, (p. 106) he presents a calculation that is correct only if all of the lower incomes of blacks and Hispanics result from discrimination. That requires him to believe that black illegitimacy, lack of prenatal care, high crime and high school dropout rates, which many studies have found to be associated with low black incomes, all result entirely from discrimination. No evidence is presented or referenced, and few scholars have asserted such a conclusion. Further, Yinger never mentions the fact that large but unknown numbers of Hispanics are undocumented, i.e., illegal immigrants. That fact obviously restricts Hispanics' access to good jobs and to other aspects of mainstream American life, but cannot be interpreted as discrimination.

A final comment may be no more than an intellectual

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curiosity. Housing audits have been around for more than a quarter century. Results are widely reported in the press and provide ideal evidence in suits against housing agents for illegal discrimination. Don't housing agents learn that, whatever their feelings, they risk civil damages if they are not very careful how they treat minorities?

REFORM MAY NEED REFORMING

Making Ends Meet: How Single Mothers Survive Welfare and Low-Wage Work
by Kathryn Edin and Laura Lein

Reviewed by Anna L. Harvey

Making Ends Meet grew out of an apparent puzzle revealed by the "Chicago Survey of Poverty and Material Hardship," conducted by Susan Mayer, Fay Cook and Christopher Jencks in 1983 and 1985. In that study, approximately one half of the single-mother families with incomes below the official poverty threshold reported income that failed to cover their expenditures on food, housing, and medical care. The gap in the reported incomes and expenditures of poor single mothers also turned up in other surveys, such as the Department of Labor's Consumer Expenditure Survey. Kathryn Edin and later, Laura Lein, set out to discover how the mothers "made ends meet."

The authors soon discovered that these mothers were unwilling to disclose greater detail about their budget shortfalls. Edin and Lein thus developed a more labor-intensive survey methodology: persuading community leaders who were known and trusted by the respondents to vouch for the researchers' good will and then meeting with the respondents over the course of typically several open-ended interviews. Edin and Lein would then obtain referrals to other low-income single mothers from their original interviewees. Through this time-consuming process they were eventually able to obtain fairly complete expenditure and income information from 379 single mothers in Chicago, San Antonio, Boston, and Charleston, South Carolina between 1988 and 1992. Approximately half of their sample relied on cash public assistance as their primary source of income while the remaining half relied on a low-wage (less than eight dollars an hour) job as their primary income source.

The book reports large quantities of descriptive information previously unavailable to researchers using conventional survey techniques. Among their findings is that the welfare-reliant mothers could cover, on average, about three-fifths of their expenditures with their public assistance benefits, while the wage-reliant mothers could cover approximately two-thirds of their expenditures with the wages from their primary jobs. Yet while the gap was less in relative terms for the wage-reliant mothers, it was larger in absolute terms; low-wage jobs generated both more income and more expenses for the wage-reliant mothers. It was thus harder for them to close their budget shortfalls, and they experienced greater material hardship as a result.

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Unsurprisingly, Edin and Lein found that these single mothers were not covering their budget shortfalls with savings, loans, or credit cards. Rather, the authors found that the three most common sources of income to close the gap were money from relatives and friends, off-the-books employment, and contributions from charitable agencies. More specifically, 77 percent of welfare-reliant and 82 percent of wage-reliant mothers received cash assistance from family, friends, boyfriends, or absent fathers (contributions from the latter two groups being significantly larger for wage-reliant than for welfare-reliant mothers); 40 percent of welfare-reliant and 28 percent of wage-reliant mothers worked unreported jobs; and 31 percent of welfare-reliant and 22 percent of wage-reliant mothers received assistance from charitable agencies. Typically, none of that income was reported either to welfare authorities or to the Internal Revenue Service, and consequently also was not reported to survey researchers.

Although the book makes much of this information available for the first time, the information itself is not particularly surprising. The puzzle of the reported budget shortfalls is not much of a puzzle to begin with. If one simply compares maximum cash benefits available to single mother families with the bottom quartile of market rents in these cities (as Edin and Lein do in the book for 1993), one finds that the cash benefits do not even cover rent in three cities and would barely cover rent in Boston. One finds the same result for those single mothers working low-wage jobs in these cities, deducting additional likely work expenses such as childcare. That the shortfalls must exist is a fact that was surely available before the publication of this book.

Moreover, the finding that welfare-reliant mothers make up their shortfalls with unreported income from whatever sources they have available is also predictable. Reporting income would lower benefits and reduce their ability to make up their shortfalls. Therefore, they have strong incentives not to report this income leading to the gap between expenditures and income found in surveys. Similarly, wage-reliant mothers have strong incentives to find second jobs off the books in order to avoid taxes that lessen their ability to make up their shortfalls. Again, we surely knew this must be the case before the publication of this book.

One finding about the particular way in which mothers make up their budget shortfalls, however, may be of interest to those involved in the debate over welfare policy. The extent to which low-wage-reliant mothers depend on transfers from their family and friends in order to "make ends meet" is troubling. Those who oppose government transfers to poor mothers do so largely on the grounds that it should be a goal of public policy to encourage individuals to lead self-sufficient and productive lives through work. Government transfers to poor mothers fail to serve that goal. But surely so do extensive transfers from family and friends. Welfare reform which moves poor mothers into low-wage work without providing support for their additional work-related expenses is not any better from the standpoint of encouraging self-sufficiency than welfare reform which provides such support. In addition, we must be concerned that the increase in the numbers of these poor mothers working low-wage jobs will in all probability dramatically increase the financial strain on their families and friends who are themselves unlikely to be far away from the official poverty threshold.

Moreover, *Making Ends Meet* was researched and written in the period before the abolition of Aid to Families with Dependent Children (AFDC) when mothers could at least fall back on AFDC benefits if they did not have the ability to secure sufficient transfers from their family and friends to meet the larger budget shortfalls incurred by working low-wage jobs. In the post-AFDC era, when all poor mothers will at some point be required to enter the workforce, those mothers without the ability to secure those nongovernmental transfers will likely not be able to make ends meet. To alleviate this problem and to lessen the financial strain on these mothers' families, we will probably need to provide assistance for working mothers in a variety of forms; this assistance will likely raise the cost of public assistance beyond its previous levels. But then, we already knew that, too.

Cost of the Status Quo

Money for Nothing: Politicians, Rent Extraction, and Political Extortion
by Fred S. McChesney
(Harvard University Press, 1997) 227 pages

Reviewed by Brian Roberts

Government inaction would seemingly come as welcome relief to many concerned with federal regulatory heavy-handedness. Alas, thanks to the insights of Cornell law Professor Fred McChesney, we can no longer look at self-declared regulatory restraint by Congress as either welcome or benign. In *Money for Nothing*, McChesney argues that politicians do nothing less than extort campaign contributions from interest groups by threatening regulatory change. Perversely, the success of politicians is measured by their inactivity: less observed regulatory change reflects more successful extortion—greater campaign contributions.

Campaign finance scholars have long sought to document what no doubt seems to be the absurdly obvious link between campaign contributions and political favors, usually measured by favorable votes on bills of interest. This quest probably struck many as a simple warm-up or calibration exercise in preparation for more "sophisticated" analyzes of campaign finance and interest group behavior. To the chagrin of many, that link has proven surprisingly elusive; other than in occasional and very narrow case studies, scholars have failed miserably in their efforts to document a systematic—recurring and predictable—quid pro quo.

In an intriguing and well reasoned argument—like many good arguments, head-slappingly obvious in retrospect—McChesney cracks open the heretofore unyielding nut by offering an explanation based on, well, nothing at all. While economists and political scientists search in vain for the return on campaign investments, McChesney argues that politicians play a far shrewder game of generating contributions with promises of inactivity. Some, including McChesney, would call extortion: soliciting contributions, implicitly or otherwise, from interest groups to preserve the status quo.

In the minds of industrialists, regulatory status quo commands a uniquely cherished—highly exploitable—position. Regardless of the severity of regulatory constraints on economic behavior, the greatest fear—short of nationalization—for most firms or industries is regulatory change or uncertainty. Masters of constrained optimization, firms are unnerved by the prospect of "reoptimizing" and thus, as McChesney's politicians have learned so well, will go to great lengths, and great expense, to forestall change.

Building on the seminal work of George Stigler and Sam Peltzman, McChesney constructs a model of regulation that casts politicians in the role of extortionist, offering promises of regulatory inactivity (preserving the status quo) in exchange for campaign contributions, the nectar of politics. The theoretical model, accessible by a sophisticated lay audience, is followed by several recent case studies—ranging from product liability regulation to tax reform—that examine instances of apparent extortion. (An updated version of the book might well include the current travails of Microsoft; the threat of antitrust litigation has already elicited sizable soft money contributions).

The case studies prove to be startling examples of the political behavior that McChesney models, but in some sense they fail to do justice to the model itself. The model cries out for more systematic analysis. It is ripe with testable hypotheses that may, for the first time, provide the empirical foundation for the formation of systematic evidence linking campaign contributions to political behavior. That is not meant to criticize the case study approach taken in the book; case studies are entirely appropriate given the need to bring behavior into the light of day. A dry statistical analysis following hard on an equally dry theoretical model, while satisfying a few social scientists, just wouldn't accomplish the same objective. There is no doubt, however, that thanks to McChesney's work those analyzes will soon be appearing in the campaign finance literature.

One of the important lessons of *Money for Nothing* that is

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potentially lost in the glare of the case studies—and should factor into the current debate on campaign finance reform—is the deadweight loss that the extortionist behavior of politicians imposes on the economy. As McChesney points out, and firms are well aware of, not all rents are equally extractable, that is, vulnerable to extortion. With the prospect of political extortion; firms will change their investment behavior, choosing at the margin to invest in less vulnerable capital, or more lawyers and accountants. Those sorts of politically derived economic distortions are costly and undesirable.