

MICHAEL H. MOSKOW  
OPENING REMARKS -- MIDWEST APPROACHES TO  
SCHOOL REFORM CONFERENCE  
OCTOBER 26, 1994 - PAGE 1

Good Afternoon. I would like to welcome you to the Federal Reserve Bank of Chicago. I am genuinely pleased to have such an impressive gathering of researchers, scholars and policy makers here at the Bank to examine the topic of the delivery and financing of elementary and secondary school services.

On a personal note, my interest in this subject goes back 30 years to the days that I taught English and history in a public high school in Paterson, New Jersey, and later wrote my Ph.D dissertation at the University of Pennsylvania on "Collective Bargaining for Public School Teachers."

As you know, the role of the Federal Reserve System is to foster a strong economy, supported by a stable financial system. One of the key determinants of our region's economy and its rate of growth is the skills and training of our work force -- what economists call "human capital." In this regard it, is important for

MICHAEL H. MOSKOW  
OPENING REMARKS -- MIDWEST APPROACHES TO  
SCHOOL REFORM CONFERENCE  
OCTOBER 26, 1994 - PAGE 2

*provides a forum to*  
us to carefully study proposals made to reform our educational  
system so that we <sup>all</sup> can determine whether they will improve the  
quality of education and/or the efficiency of the educational  
system.

This conference is an important step toward improving our understanding of the proposals for educational reform that are currently being discussed or experimented with in our region. / Our purpose, in part, is to investigate the models for fiscal and educational reform that are already being tried to improve our educational system. Fortunately, the Midwest is something of an incubator when it comes to examining these issues. As the conference agenda will attest, Midwestern states have been wrestling with issues as diverse as the role and responsibilities of the state government in paying for education, / to the introduction of school vouchers and charter schools for delivering school services.

MICHAEL H. MOSKOW  
OPENING REMARKS -- MIDWEST APPROACHES TO  
SCHOOL REFORM CONFERENCE  
OCTOBER 26, 1994 - PAGE 3

For example, we will hear about Michigan, where the state has scrapped its long standing dependence on the local property tax for funding education / and replaced it with a system that will leave state government with responsibility for providing nearly 80% of education funding. / On the heels of this controversial shift in funding responsibilities, Wisconsin has begun to investigate taking a similar action and is reducing its reliance on local property taxes for funding its schools.

However, financing is only one component of this complicated issue. Reform also includes examining how education services are provided. This includes investigating the effects of school choice among public and private schools / and the effect that introducing competition in the provision of school services may have on the quality and the cost of education. We will hear about Minnesota's experience with charter schools and Milwaukee's experiment with a

MICHAEL H. MOSKOW  
OPENING REMARKS -- MIDWEST APPROACHES TO  
SCHOOL REFORM CONFERENCE  
OCTOBER 26, 1994 - PAGE 4

limited voucher program. / The charter school movement has already picked up a great deal of popular support, and authorization to establish these specialized curriculum schools was one aspect of Michigan's reform plan. / School vouchers as an avenue for reform have been debated since Milton Freedman proposed a voucher system in 1955. / Still, <sup>there has been very little</sup> experience with vouchers ~~has been limited~~ and the Milwaukee experience will help us understand how a limited version of this approach is working in practice.

One word of caution is appropriate as we begin discussing the Milwaukee experiments / and other voucher-type experiments that deal with choice among public and private schools. / In order for these experiments to accurately measure whether such plans improve learning and/or reduce costs, in my judgment, they must simulate a full-scale program and be conducted for an extended

MICHAEL H. MOSKOW  
OPENING REMARKS -- MIDWEST APPROACHES TO  
SCHOOL REFORM CONFERENCE  
OCTOBER 26, 1994 - PAGE 5

period of time. / Those who advocate public/private school choice systems believe that the availability of vouchers will encourage new private schools to open and existing public schools to improve because of the increased competition from private schools. / In addition, private firms are expected to increase research and development spending in order to improve teaching methods and educational materials.

Obviously, no new private schools will open unless there is a large enough group of students covered by the program for a guaranteed period of time. / We faced this same problem over 20 years ago when I worked at the U.S. Department of Housing and Urban Development. / At that time the public policy issue in active debate was whether the government should continue to build or subsidize housing for low income people / or to ~~shift~~<sup>shift</sup> to providing vouchers or housing allowances to enable recipients to find their

MICHAEL H. MOSKOW  
OPENING REMARKS -- MIDWEST APPROACHES TO  
SCHOOL REFORM CONFERENCE  
OCTOBER 26, 1994 - PAGE 6

own housing. To address this issue, we developed a series of housing allowance experiments in which we simulated a nationwide program in two communities and guaranteed the recipients that the program would last a minimum of 10 years. The purpose of the experiment was to measure the response of the private market to the housing vouchers and the impact on the quality and price of housing for low income people. As we look at our education experiments, I hope that you will identify the limitations as well as the benefits of the existing experiments since it is important for us to fully understand what we will not learn, as well as what we will learn.

*(actually 10 other cities - but testing different aspects of H.A. that did not require simulat national program.)*

Reform, of course, also means looking at experiments in the management and accountability of school systems. We will hear about efforts in Chicago at system-wide reform of a school system with 400,000 students that attempts to improve accountability

MICHAEL H. MOSKOW  
OPENING REMARKS -- MIDWEST APPROACHES TO  
SCHOOL REFORM CONFERENCE  
OCTOBER 26, 1994 - PAGE 7

and increase local participation in school management. This reform effort will also be related to findings on the effects that this may be having on student performance, as well as the need to examine the relative costs of this effort. We will also hear about experiments in privatizing the management of public schools and the experience of the City of Baltimore with contracting a private firm to run some of its schools. Hartford, Connecticut, has recently contracted with the same firm to run its public schools. With such an array of policy experiments to select from, there is bound to be a lively discussion over the most effective models of reform.

Finally, I would be remiss not to mention that there is some urgency in addressing this topic right now. In the City of Chicago, we have a school system that has been attempting to reform itself for the past decade and has embraced efforts such as Local School Councils and magnet schools in an effort to improve the academic

MICHAEL H. MOSKOW  
OPENING REMARKS -- MIDWEST APPROACHES TO  
SCHOOL REFORM CONFERENCE  
OCTOBER 26, 1994 - PAGE 8

performance of its students. However, these reform efforts have had to proceed in an environment of fiscal ~~chaos~~<sup>uncertainty.</sup> While a budget was ~~cobbled~~<sup>brought</sup> together for this current school year, the budget for the 1995-96 school year is facing a projected deficit of \$300 million. No one seems to know how this gap will be closed and it will undoubtedly lead to a school fiscal crisis heading into next fall. Similar fiscal strains can be seen in school districts throughout the Midwest in both urban and rural settings. However, providing effective solutions will require more than just money. This conference gives us a chance to learn from the experiments in education reform, to identify the limitations of the existing experiments, and to suggest areas for future research. I hope that this conference will serve as an information clearinghouse for those who are interested in the issue of school reform.

MICHAEL H. MOSKOW  
OPENING REMARKS -- MIDWEST APPROACHES TO  
SCHOOL REFORM CONFERENCE  
OCTOBER 26, 1994 - PAGE 9

In conclusion, let me pose <sup>FIVE</sup> ~~SOME~~ questions to you that we hope the conference will address in the next two days:

1. We will begin our conference with issues of financing our schools. The paramount finance question relates to education's very nature as a "public good." Insofar as education benefits society and our economy as whole, do our finance systems in the Midwest ensure a sufficient and stable level of funding so that every child can receive a strong educational foundation? / What criteria should be used to determine the appropriate or sufficient level of funding for education?

2. State and local electorates hold the purse strings with regard to school finance and, increasingly, voters are refusing to fund schools without further evidence that their money is being well spent. Many people believe that it is more important to improve the spending of existing funds rather than increase

MICHAEL H. MOSKOW  
OPENING REMARKS -- MIDWEST APPROACHES TO  
SCHOOL REFORM CONFERENCE  
OCTOBER 26, 1994 - PAGE 10

spending. Later today, we will examine whether experiments with "incentives and accountability" can improve public school performance, and whether these reforms can satisfy voter concerns that public schools have become divorced from incentives to excel, and from incentives to deliver a quality product in a cost effective manner. Have such experiments worked, and, if so, can they be transferred to Midwest school systems, particularly urban schools where lagging performance is most evident?

3. One long-standing alternative to tightening the incentive structures with existing schools has been to impose the discipline of the market place by allowing consumers to choose among alternatives, including the choice of private schools with public money. Since that idea was first proposed, most of the experiments in choice have involved, not private schools, but rather choice among public schools. These public "choice" programs

MICHAEL H. MOSKOW  
OPENING REMARKS -- MIDWEST APPROACHES TO  
SCHOOL REFORM CONFERENCE  
OCTOBER 26, 1994 - PAGE 11

include magnet school programs, open enrollment, and most recently creation of the public-private hybrid call "charter schools". One question that I would hope that this conference will address, (and I'm sure that the papers in your opening session tomorrow will do so), is whether taking the "half-step" towards choice (by limiting choice to public institutions) will be beneficial. Or do we need competition from the private sector to achieve the market discipline which many believe is necessary to bring about meaningful innovations and reforms to those public schools that are not working well.

\*\* On the other hand, how do we evaluate the very limited supply-side experience we have had with the Milwaukee choice program and the current "contracting out" in other urban areas? Are these experiments fair tests of whether the private sector is capable at this time of supplementing or, in fact, replacing the role

MICHAEL H. MOSKOW  
OPENING REMARKS -- MIDWEST APPROACHES TO  
SCHOOL REFORM CONFERENCE  
OCTOBER 26, 1994 - PAGE 12

of our public sector institutions? / For this reason, it is certainly <sup>reasonable</sup> ~~fair~~  
to ask whether we can design a full scale public/private school  
choice experiment that will simulate an ongoing program and  
provide a fair test of the responsiveness of the private sector.

4. The school reforms currently underway in Chicago City schools reflect the belief that it is not the "publicness" of our schools, but rather their organization that can stand some improvement. The Chicago approach is to empower local schools (and their customers) with the authority to make decisions regarding the shape and delivery of educational services. The questions that I hope you will address will be whether site-based management can work, and more importantly, what must we do to make it work in Chicago?

5. Finally, the over-arching question which I believe has dominated educational provision in America from the beginning is

MICHAEL H. MOSKOW  
OPENING REMARKS -- MIDWEST APPROACHES TO  
SCHOOL REFORM CONFERENCE  
OCTOBER 26, 1994 - PAGE 13

*and (2) who provides? On ~~it~~ what can the choosers <sup>choose from</sup> choose from*

(1) WHO CHOOSES? That is not to say that we don't need further research such as the "effective schools" inquiries. Rather, most Americans, ~~including myself,~~ are die-hard believers in the fact that "we know how" or "we can find out how"; The question becomes who will choose our schools -- state government, local government, federal government, parents, professional educators, or voters in general.

6. At end, that is what all of our current experiments are about, and I hope that, together, we can begin to fashion research in this direction.

*Thank you all for ~~being~~ attending. We look forward to a stimulating exchange of views.*