

MIDWEST PERSPECTIVES ON SCHOOL GOVERNANCE AND FUNDING
FEDERAL RESERVE BANK OF CHICAGO

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I. Welcome

- A. Good afternoon, and welcome to the Federal Reserve Bank of Chicago.
- B. I am Michael Moskow, President of the Bank. We are excited to host such an impressive and eclectic group.
- C. I'm honored to play a role in fostering this collaboration.
 - 1. As some of you may know, many years before I became President of the Chicago Fed, I was a history and English teacher at the school I had attended myself — Eastside High, in Paterson, New Jersey.
- D. Many changes have occurred since I donned my first suit and stood before that room full of young listeners — many suits later not only have I aged, but, no offense intended, so has my audience.
- E. Education has grown as well.
 - 1. Particularly since the Chicago Fed's last conference on this topic in 1994, education has made great strides.
 - 2. In fact, these changes are so extensive, we feel they necessitate a special effort this year.
 - 3. We will be hosting a series of three conferences that will focus on our experiences with reforms in school governance and funding here in the Midwest.

- F. Today's conference is the first in the series and looks more broadly at the national trends in educational choice.
 - 1. I would like to start by identifying some of the changes that have occurred in this area since our last conference five years ago.

II. Progress in Charter School movement

- A. When we last met in 1994, the charter school movement was little more than a concept.
 - 1. Only ten states had passed charter school legislation and only 66 charter schools were operational.
 - 2. Wisconsin and Michigan were the only Midwest states that had adopted charter laws at that time.
 - 3. Federally, the national education budget allocated a mere 6 million dollars to support charter school initiatives.
 - 4. As a result, little empirical research existed at that time and support for charter initiatives was primarily based on theory, rather than on any evidence of success.
- B. Today evidence abounds.
 - 1. Some 35 states have charter legislation.
 - 2. Charter schools are already up and running in 27 states as well as the District of Columbia and they serve over 300,000 children nationwide.
 - 3. Here in the Midwest, Michigan is considered a leading state in the charter school movement.
 - 4. The scope of Michigan's legislation is second only to Arizona.
 - 5. With 138 charter schools, Michigan ranks only behind California and Arizona in terms of the number of charter schools it has actually in operation.
 - 6. And now Illinois has adopted charter legislation as well.

III. Contracting schools — for-profit school systems

- A. In 1994 for-profit educational organizations and their promise of educational efficiency were just starting to emerge.
- B. The Edison Project would not open its first schools for another year.
- C. Since that time, however, these groups have gained popularity with each passing year, primarily through contracts with charter school directors seeking to outsource school management to private entities.

- D. Recently, however, for-profit groups have opted to cut out the middleman and have shifted to a model of direct contracts with school boards, a concept originally proposed by Paul Hill.
- E. Today we will have the opportunity to discuss the potential impact of this approach.

IV. Support of public funds for private education. (Vouchers and tax credits)

- A. At the time of our last conference, the seeds of a public voucher system had already been planted in:
 - Vermont, Maine
 - Cleveland, Ohio and
 - Milwaukee, Wisconsin
- B. The developments in Milwaukee reflect the growing support nationally for giving voucher programs a chance.
 1. The Milwaukee Parental Choice Program, established in 1990, provided tuition vouchers of up to \$5,000 per year per child to attend private schools.
 2. Eligibility was limited to children from poor families, and a cap was set at 1500 students.
 3. The vouchers were not applicable to religiously affiliated schools.
 4. In 1995, the law supporting the program was amended to expand eligibility to 15,000 children and to include religiously affiliated schools.
 5. While critics challenged that the inclusion violated the separation of church and state, the constitutionality of the public voucher program was upheld in the Wisconsin Supreme Court in June of 1998. — And the Supreme Court of the U.S. let stand the Wisconsin voucher system by declining to review the case.
 6. Today, the Jackson v. Benson decision stands as an important precedent, legitimizing current and future public voucher programs.

V. The expansion of the Milwaukee voucher program has attracted successful innovators like Marva Collins.

- A. Ms. Collins demonstrated her ability as an educator while serving as a probation manager for the Chicago Public School board by turning around three failing elementary schools in Chicago.
- B. Five months after Ms. Collins started, reading scores at one school tripled, while another doubled.

C. The Marva Collins Preparatory School, already operating in Chicago, opened a Wisconsin sister school in Milwaukee in 1997.

1. The school is a private, non-religious school with tuition of \$4,500 and enrollment open to anyone, including those eligible for Milwaukee school choice vouchers.

VI. In addition to the voucher programs, tax credits are now being established for families who send their children to private school.

A. We will hear today about the impact of this legislation and similar legislation currently pending in Illinois.

B. Private funding for increasing educational opportunity.

1. Following the trend of public programs, private funding for increasing educational opportunities has grown dramatically in recent years.
2. In 1995, 17 private voucher programs existed across the nation supporting 6,500 children.
3. Today, there are 41 programs, which support more than 13,000 children.
4. In tomorrow's session, we will examine these private programs in greater detail, focussing in particular on Milwaukee's PAVE Program and New York City's program.

C. Just this past week, one private-voucher program grabbed headlines here in Chicago.

1. Some 2,000 Chicago children won scholarships of 600 to 1600 dollars in a national lottery sponsored on behalf of low-income children.
2. The program received applications from the families of one in seven Chicago public school students and will allow winning children to attend private school for four years.

D. Student performance

1. At the time of our first conference, a concern for overall performance existed, but most academic researchers and observers maintained a general belief that we could still compete internationally.
2. Now published findings are throwing into question the international competitiveness of even our highest achievers.

E. As such, we will kick off today's conference, with a summary of current research regarding our students performance — from both national and international perspectives.

VII. Fed Interest

- A. The Federal Reserve Bank has a long-standing interest in education.
- B. In understanding and monitoring the economy of the Midwest, we concern ourselves with those policies that help to fashion growth and development.
- C. Fundamentally, we cannot talk about our region's competitiveness in the world economy without talking about the skills and education of our workforce.
- D. Just two years ago, our Bank's research department conducted an assessment of the Midwest economy—specifically its past performance and prospects and choices going forward.
- E. This effort was conducted in cooperation with researchers, leaders, and policy makers from across the region and the nation.
- F. Our research effort concluded that as jobs continue to become increasingly performed from the neck up rather than from the neck down, productivity in the Midwest will be increasingly dependent on the education level of the people of the region.
- G. By and large, the students we are educating today will be our workforce tomorrow.
 - 1. Their training and education are, therefore, the essential determinates of the Midwest's prosperity and well being in the future.

VIII. **As for the theme of today's conference — choice and competition — it is fair to say that in almost every arena—private industry as well as government — choice and competition have enhanced productivity and unleashed creative change.**

- A. This does not make the case that education should necessarily follow this route in full measure, without either forethought or appropriate modification.
- B. But it does make the case, I think, that we should examine and evaluate alternative models of education that include competition, choice, and accountability to customers.
- C. In addition, we must be open to experimenting with school reforms on a larger scale in order to exploit the advantages of economies of scale.
- D. Limits may be necessary during the early stages of reform.
- E. But when caps are placed on the number of charter schools that a state can authorize, or limits are set on the number or duration of vouchers that are funded, the private sector has less incentive to innovate.

- F. The scale of reform programs must merit substantial private sector investment in new techniques before we can fully evaluate the potential of the private sector.

IV. Certainly the debate over choice and competition is not the only education issue that has piqued our interest at the Federal Reserve.

- A. As I mentioned earlier this conference is only the first of three conferences that we are sponsoring over the next few months.
- B. At the next conference in June, we will address how the levels and allocation of educational resources impacts educational outcomes.
- C. The final conference will focus on the urban school systems, and the unique challenges they face.
 - 1. I hope that many of you will join us for the discussion of these critical issues as well.

V. In closing, I look forward to joining all of you over the course of the next day and a half and to learning from you, the leading researchers on choice and competition models in the Midwest.

- A. Your participation is the substance of this conference and I encourage you to share your thoughts and specific expertise throughout the conference.