DOCUMENT RESUME

ED 282 305 EA 019 344

AUTHOR McClure, Maureen W.
TITLE The Political Economy of Education Finance: Legacies of Largess Lumbering toward an Uncertain Future.
INSTITUTION Association of School Business Officials International, Reston, VA.
PUB DATE 86
NOTE 16p.; Chapter 24 of "Principles of School Business Management" (EA 019 320).
PUB TYPE Guides - Classroom Use - Materials (For Learner) (051) -- Information Analyses (070)

EDRS PRICE MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS Bureaucracy; Change Strategies; *Economic Change; Economic Factors; *Educational Economics; Educational Finance; Educational Policy; Elementary Secondary Education; *Futures (of Society); Politics of Education; Public Education; Social Change; Technological Advancement

ABSTRACT

This chapter of "Principles of School Business Management" analyzes three aspects of economic change that could have a profound impact on educational finance in the future. The chapter begins with an introductory review of recent economic history and its reflection in social agendas for education. The causes of the current lack of discretionary resources for school districts are traced and the consequent difficulties limiting educational reform are noted. The chapter then turns to the first of its three central topics: tax base investment cycles that take capital from a tax base, pass it through a system like the education system, and return it to the tax base in the form of human capital. The dangers of depending on regional tax bases within a global economy are examined. The second major topic is concerned with differences in the response times of political and economic allocative systems; these differences can generate potentially disastrous slippage. The chapter's third topic is delivery systems, and particularly the ability of organizational and technological changes to be assimilated by public education's bureaucracy. The implications of these challenges for educational policy are considered in the chapter's conclusion. Thirty-four references are cited. (PGD)

24

The Political Economy of Education Finance: Legacies of Largess Lumbering Toward an Uncertain Future

Maureen W. McClure

A classic television commercial opens on a scene of elegant calvarymen directing cannonfire confidently into the smoky distance. Suddenly, out of what appears to be a successful silence, a tank roars out of the haze, hurling the horsemen into disarray. A voiceover inquires if the viewer, too, is fighting tomorrow's battles with yesterday's technology. Perhaps education's financial policies are lumbering toward the future on horseback with cannons. Structured to meet the demands of a growth-oriented post-war economy without many competitive demands, they, like their private sector bureaucratic counterparts, may be ill-equipped to meet the challenges of a highly competitive, global, service-based economy. What fate faces the nation's public educational finance systems as regions improve their global-market competitiveness or risk their future tax bases?

The future of educational finance is intimately interwoven with the future of the American economy. Educational institutions are likely to be affected by structural changes in both regional and national economies over the next two decades. Changes in demographic structures, slow economic growth, a move toward a service economy, increased capital velocity and globalization of the economy through advanced technologies are likely to have long-range effects on tax bases, demands for public services and financial policies for schools.[1]

Some of these shifts will erode education's public financial bargaining leverage. An aging population means fewer households to receive direct benefits from education. Those households with children in school will be poorer and less well organized politically.[2] Labor market competition in a global economy will challenge American educational policy makers with international achievement comparisons.[3]

Many of these shifts have uncertain outcomes. Are the declining returns to educational investment due to a permanent or temporary oversupply of educated workers?[4] Will lower wages become the norm of a service-based economy that lowers job skill requirements?[5] Will the demands of this new economy erode both the American middle class and its tax base, creating two-tiered wage structures?

The rapid development of technology is also altering the organizational structures of education, with long-term financial consequences. Telecommunications technology can now support rapid transfer of capital internationally, contributing to the globalization of the economy. This process is increasing levels of uncertainty

in the immobile tax bases that generate revenue for school districts.[6] Within districts, computer networks are opening new levels of access for professional decision making.[7]

This chapter sketches some possibilities and suggests areas for potential policy research. While diverse interpretations of these forecasts exist, there are common threads for debate. This argument recasts traditional educational finance questions into three interacting perspectives: revenue generation, allocation systems and delivery systems.

First, the future of education finance is closely linked to "tax-base-to-tax-base investment cycles." Over the next decade, revenue-generation policy will examine questions and issues created by interest in regional and national economic development.[8] Increased competition for increasingly fluid capital leads away from the perception of tax resources as patronage for redistribution and consumption toward a refocus on public investment for economic development.

Second, political and economic allocative systems differ in response time, leading to sectoral slippage. When the actions of one sector impose nonreimbursed costs on the other, negative externalities are created.[9] These actions can generate slippage between sectors, resulting in unintended negative consequences for either sector. Attention to slippage should become a major priority for those in education finance over the next decade. Since political markets often lag behind economic ones, educational policy generally reacts to economic change. Education finance policy is currently most concerned about the distribution of existing resources.[10] Current school reform efforts are not assuming a leadership role in shaping a national economic transition period.

Third, the development of technology is rapidly generating more complex organizational structures, causing the likelihood that organizational slippage will increase. For example, the traditional, centralized public bureaucracies which monitored education in the past may prove less cost-effective in the future than decentralized, computerized networks that link field professionals more directly.

Emerging technologies also allow for a reorganization of existing educational delivery systems. The cost-effectiveness of new, technologically based organizational structures has not yet been measured. Technical systems may provide creative alternatives to the traditional dilemma of centralized financial support for "fund and trust" professional structures *versus* regulatory structures.[11]

Those who observe, record and manage the financial machinations of educational institutions may find that the professionals of the future may require very different sets of skills than those of the past. Over the next decade, education could assume a leadership role in structuring high quality, customized services that would serve as models for a post-industrial, service-based economy.[12]

Background: Roots of Current Financial Rigidity

In a growth environment, political cycles can be endured. Educational professionals whose careers depend on the allocative agendas of elected officials can provide cyclically appropriate justification for policy.[13] Thus, in periods of tax surpluses, social agendas emphasize equity among constituents. As resources become more difficult to distribute, social agendas turn to values of efficiency and

excellence. The vocabulary of inclusive opportunity at the peaks changes to exclusive standards in the valleys.

Though federal funding levels have generated only a small fraction of total district expenditures they have wielded a strong influence on both state agendas and district practice. National reports such as *A Nation at Risk* have leveraged major policy discussions.

When those reports were tied to other popular federal agendas the effect was even more pronounced. In the late 1950s, education finance rolled up with the military's Sputnik scramble through NDEA (National Defense Education Act) and NSF (National Science Foundation). Policy makers tied funding for science and engineering training to national defense interests. In the 1960s, financial policy cashed in on Johnson's "war on poverty" by linking compensatory education programs for disadvantaged children to urban blight solutions. It was a time for justice and equity, buoyed by budget surpluses and an attentive judicial system.

As the costs of the Vietnamese war intruded on the expensive poverty war, however, the limelight turned to state legislatures which had solid records of commitments to education, powerful union lobbies and budget surpluses unencumbered by the logistical expenses of offshore battles. By the mid-1970s, equity issues focused on state financial funding formulas and the interests of "special needs" children. Relatively full state coffers also supported judicial claims for "wealth neutrality" and "thorough and efficient" educational systems to provide opportunity for all children.

Unfortunately, the largess that attended to "needs" independently of projected future costs began to evaporate with inflation in the late 1970s. By that time, however, cumbersome regulatory structures had grown up around local schools connecting them to external state and federal revenue flows. The regulation costs of monitoring and compliance devoured enormous pools of tax resources. For example, some states added an intermediate layer of administrative overhead between the state education department and school districts primarily to monitor compensatory, vocational, special education and other categorical and entitlement grants.

The tax surpluses of the 1960s, the optimistic revenue projections of the mid-1970s and their consequent allocative indiscretions met declining enrollments and overly rigid budgets in the late 1970s and early 1980s.[14] In many school districts, budgets are committed at levels well above 90 percent including labor contracts and fixed costs overhead.[15] Unfortunately, it would take an unprecedented economic growth spurt to thaw many of the school budgets that are grossly overcommitted, leaving few discretionary resources to invest in reform.

With few discretionary resources for investment, the long-term prospects for reform are dreary at best. Political bargaining leverage has eroded, taxpayer resistance increased and the stench of low morale in aging faculties has left many districts increasingly unable to organize their programs to increase their cost effectiveness. Hence it is predictable that current reform efforts are moving away from "add on" and "pull out" programs for the "special" children of the 1960s and 1970s, and moving instead toward "turning the tide" for the average child, now portrayed as mediocre. The moral trumpets of excellence blow siren calls through the sluggish economic winds of the 1980s.

These reforms carry a tacit assumption that organizational restructuring is necessary to free up discretionary resources for reinvestment.[16] If the relatively mild

restructuring efforts of career ladders, merit pay and dismissal of incompetent employees do not create sufficient "slack" to thaw budget rigidity, more radical restructuring efforts may become more politically viable during the 1990s: tuition tax credits, moves toward contracts instead of tenure, fees, decertification, different types of vouchers and other moves toward the privatization of education benefits.[17] Even these more radical moves, however, may prove to be less effective at freeing discretionary resources than a structural reconceptualization of education as decentralized, professional services.

Reform for tax base regeneration will not come easily. Allocators in educational political markets not only tend to ignore future economic downturns in their decision-making processes, they tend to view allocative resources as consumer or patronage goods to be distributed to worthy constituents. A producer or investment perspective will be required to coordinate cooperative efforts for both regional and national economic development.

Investment Cycles

In the past, educational finance has not been closely coupled with tax base regeneration. Indeed, the literature linking education and the economy has generally ignored a direct tax base connection, focusing instead either on returns in the form of wage income or returns measured by the gross national product. While these analyses are interesting and useful to policy makers they tacitly assume a common tax pool. While this assumption holds in those countries which rely on wage income for their tax base and which allocate educational resources federally, it is less helpful in a nation with the highly decentralized, relatively independent local tax pools that still form much of the revenue support for schools.

While income generation increasingly contributes directly to school tax base support, property taxes still represent a substantial portion of the tax pools for revenue generation, primarily at the local level. The value of that property is closely tied to the economic climate of the region. While state level tax pools extend beyond some regional boundaries most states are enveloped by larger regional economies and their potential tax bases.

Over the next decade it will be increasingly important to recognize that the fortunes of school districts are intimately tied to the health of their regional economies and their tax bases. One can monitor tax base regeneration by tracking a "tax-base-to-tax-base investment cycle." In this model, tax capital flows from a base into an allocative body such as a school district or state legislature. From there it flows through administrative mechanisms to direct delivery services, where resources are invested in students. These students eventually take their investments into the economy in the form of "human capital" where their actions will affect the tax base, either positively or negatively.[18]

The tax base of origin, however, is not necessarily the tax base of return. The mobility of human capital investment does not always synchronize with place-bound tax base investments. Communities facing substantial immigration receive subsidization from the human capital investments of their economic competitors. Communities facing substantial outmigration may be subsidizing their own economic demise through continuing public educational investment.

Increases in human capital migration across regions challenge the present form of educational funding tax pools. The federal income tax generates the highest yield, the state taxes often supersede local yields, leading to an upward drift in tax yields. Education, however, has been primarily funded by property taxes which tend to be less elastic than the primary taxes of larger forms of government. When local districts began to move "upward" in their search for import capital to support their growing systems, they sat down as latecomers to the more lucrative federal bargaining tables.

While this by no means explains the low priority given to education at the federal level, it indicates the need for further research into the connections between current educational reform movements and the development of the American tax structure. Local support of community schools through propery taxes assumed a positive net future return. Will this cornerstone of education finance remain as a valid assumption in ten years?

Each point of resource transfer in the educational investment cycle, like all investments, involves some level of risk and some level of return. In the future, the education finance literature will want to track both public and private educational investment cycles more carefully to determine if allocative policy intent was matched with outcomes. Such studies, however, would require comparable financial data across regions. These data do not currently exist.[19]

In the past, those allocating resources to education have not often formally considered public dollars investments in the economic well-being of the future's tax base. Standards for return, periodic reviews and data collection for evaluation have not often been at the focal point of legislative decision processes. The neglect of these procedures has led to allocative choices which discount the future effects of policy on longer term economic growth.

Most voters and financial policy makers have insufficient information to determine the true prices of their choices. If voters prefer board members who keep local taxes low, politicians will perceive rationality in efforts to restrain local spending. These decisions could also be rational for economic development if the voters are fully informed about the consequences of their preferences. If, however, short-term voter preferences impede long-term economic growth then a slippage occurs, creating a rational short-term political choice and an irrational long-term economic choice.

For example, if low taxes generate a mediocre education for children who eventually work in jobs which require few literacy skills but, because of union efforts, pay well, then it is unlikely that a serious lack of educational skills will be publicly perceived. If, however, a competitive service-based economy cannot support high union wages, leaving the next generation of children to their own entrepreneurial devices, then an education which does not include these skills will have long-range economic and political consequences. If large numbers of the next generation eventually produce lower lifetime earnings, then even a highly progressive federal income tax will not stem the erosion of local property tax bases.

Unlike traditional business cycles, structural change measures "permanent" or long-range effects. A recessionary cycle implies a recovery; a structural change implies neither recovery nor inevitable progress.[20] The competitive development of technology creates winners and losers. The regional winners of one generation could become the losers of the next. The factories of England once sparked and

fueled both the Industrial Revolution and an economic empire. Today that torch barely glimmers in Britain, glowing more brightly in the Pacific Rim.

Jobs are created and destroyed as capital flows from one industry, service, region or nation to another. The deindustrialization of previously wealthy regions or nations may mean the development or progress of previously poorer regions or nations. These changes have major consequences for land-locked school systems that rely on the health of regional and national economies for their tax bases. The increasing globalization of the economy and technical development have created increased "capital velocity."[21]

This increased capital mobility leads to greater systems uncertainty. District taxation power which generates from a locational monopoly can erode with capital flight, increased demand for other public services, increased demand for private sector investment incentives and increased taxpayer resistance. Even districts in regions of rapid growth may find themselves in stiff competition with demands for capital works projects: transportation, sewage, water and other utilities. In the future, professionals will face more acute competition both from other areas of public concern and from the private sector. All sectors will have to design new sets of cooperative and competitive investment strategies for long-term regional and national economic survival and growth.

Allocative Systems: Slippage and Uncertainty

Many allocative decisions made within the context of public schools are created within a political context. A short-term, patronage perspective of allocation supports "current muscle;" those organizations that have access to financial backing and/or votes. Actors in both political and economic education arenas discount the impact of their decisions both on each other and on the future, especially over the longer term, because both voters and taxpayers respond to short-term incentives. A patronage perspective, for example, increases the likelihood of slippage if it sacrifices long-range economic development to short-term political demand, especially if today's worthy constituents are tomorrow's dinosaurs.

Education is a relatively minor political and financial agenda at the national level. It is, however, the major player in most states. In a cylical upswing, there is room for a wide variety of distributive agendas. In a cyclical downswing, however, the decline in allocative resources will not be absorbed evenly across agendas. Given a patronage perspective, one would therefore expect declining federal support for education and increasing state support of education, regardless of the political party in office or the consequences for economic development.

A large middle class with children in school helped militant teacher unions to develop into key political actors during the last two decades. Consequently, teacher unions were able to pass favorable regulatory legislation in many states during the late 1960s and early 1970s. Over the next decade, the political representatives of an aging population in a transitional economy will begin to reassess that legislation in light of its impact on their concerns.

In Pennsylvania, Act 195 of the state code carries no stiff mandatory penalities for either side in a strike. While these efforts have helped unions increase previously low wages, Pennsylvania developed one of the worst strike records in the

country. Entrepreneurs and executives claimed they were reluctant to move to an area which might threaten their children's future college placement. The state was not on the final list for GM's Saturn plant.

Noncompetitive financial policies created by past public educational legislation appear to have generated slippages that impede cooperative efforts for economic development. The political expectations of a more prosperous past have become the contractual overcommitments of the present. Together with an aging political leadership socialized in a different fiscal environment, this legacy acts to limit the potential for reform. Reform may be least likely to succeed where it is most needed.

If school districts, like people, have most of their income "encumbered" in the form of mortgages, interest payments and contractual obligations, there will be few discretionary resources which might be invested for future returns. Increased system uncertainty will put even those small amounts at risk. If districts can plan on a steady income or cash flow indefinitely into the future, they will not perceive risk to be a problem that requires formal attention. If, however, future cash flows allow districts to meet their contractual obligations and little else, district quality will stagnate. Slow growth tax bases will leave school districts with few discretionary resources to invest in promoting their credibility to increasingly resistant taxpayers.

The education finance professionals of tomorrow will be required to place policy into a complex context of competitive regional economic development. Unfortunately, relatively few senior professionals were trained with these skills. The managerial expertise required to build institutions during periods of unrestrained noncompetitive growth can actually impede the management of systems facing increased competition for capital import. Investment in staff retraining and the development of new education finance certification requirements will be an important area for future policy research.

Increases in uncertainty and risk generate real costs for schools. On the revenue side managers can make accurate projections more easily in a predictable growth economy, because the operating assumption of tomorrow is more. Cash flows are more easily disrupted in a steady state or slow growth environment where inflation may exceed growth in property values and income. New real estate development, in- or out-migration, plant relocations or new job formation in low-wage services can also create instability in anticipated revenue projections.

On the expenditure side, lack of resource control also generates increased risk and uncertainty. For example, districts which are required to provide a "least restrictive environment" for some without appropriate compensation are often left with the choice of providing adequate services for some children at the direct expense of others.

School financial policies infrequently formally anticipate cyclical shifts in the economy beyond annual revenue projections. These changes, while they are occurring more gradually, nevertheless have cumulative effects. School districts, state and federal policy makers and reformers have not formally accounted for business cycles in their financial policy impact statements, assuming linear growth instead. Indeed, routine financial impact statements that measure the effects of proposed policy changes on school sites have not yet become standard operating procedure.

In addition to regular business cycles, economic structural shifts will open increased opportunities for risk and uncertainty. A school district's revenue generation risk factor will thus increase, even if it is a sunbelt district currently experiencing relatively rapid growth. These increased risk factors can be formally recognized by school districts through an "expected value" technique which multiplies anticipated revenues by a probability of occurrence.[22] Districts and their regulators could calculate a range of risk factors to accommodate for alternative scenarios. These subjective probabilities would be derived from both past data and present professional judgment, subject to annual review.

A district would incur no contractual obligations beyond a given percentage of the most conservative expected value of anticipated revenues. Districts pushed past that point by uncompensated regulation might refuse compliance on the grounds that the costs of regulation jeopardize the district's financial stability and its consequent ability to provide an adequate education. In contrast, if additional revenues accrued to the district beyond the cutoff they would be considered discretionary resources for investment in local school reform efforts.

Increased system uncertainty is likely to lead to foggier futures, shorter planning horizons and an increased probability of slippage. In a stable, growth economy, school districts can make relatively accurate projections with relatively unsophisticated techniques. Education finance professionals in the next decade will face requirements for more sensitive revenue forecasts and budget processes which formally reflect uncertainty and measure the financial impact of regulatory policy on the adequate provision of education at school sites.

Delivery Systems: Bureaucracies and Professionals

Public educational systems are vulnerable to structural change. They tend to be place bound and dependent on a tax base formed from relatively rigid political boundaries. They cannot move to follow shifting economic prosperity. Since most education takes place in the public sector, few schools are able to accumulate financial endowments. Overregulated, with few discretionary resources to invest in change or reform, they are becoming victims of their past bureaucracy-building successes.

In this century public schools have developed from a system of highly decentralized, locally funded institutions into complex structural bureaucracies.[23] Today's public and private schools are interwoven with layers of financial support and regulation from state and federal governments.[24] In the past, much of the work done by education finance professionals has been directed toward the growth and maintenance of these bureaucratic structures. Increasing competition for public investments requires an assessment of the costs and benefits of the organizational edifices created by the past so that their future appropriateness can be projected.

The organizational structures of the twentieth century have been large bureaucracies, both public and private. They are becoming increasingly obsolete because of their high operational and monitoring costs, their internal rigidity, their lack of creative entrepreneurship and their inattentiveness to client or customer concerns. They may have been the effective instruments of a mass-production past, but will not necessarily be the most effective competitive tools for a service-based economy which relies on responsiveness and individualization.[25]

Some private American corporations, like Xerox, have begun to streamline their levels of management to compete with Japanese firms. They can have fewer than one half of the typical American firm's reporting levels. While slow, cumbersome bureaucracies can provide great stability under conditions that are reasonably predictable, the more "turbulent" the economic and political environments, the less flexible and responsive they become.[26]

American education professionals may also find themselves dismantling the intricate, bureaucratic structures so carefully constructed by reformers during the post-World War II era. A slow-growth economy will require school districts to develop more sophisticated sets of "customer oriented" strategies to maintain their credibility in increasingly competitive markets for tax dollars.

Large educational bureaucracies, particularly at the urban and state levels, suffer from scale inefficiencies: they are too big or too small. On one hand, large urban school systems require extensive monitoring systems; on the other hand, small districts can spend more per capita on their superintendent's salary (without fringe benefits) than on their textbooks and library books combined.[27]

Future educational finance research will compare the costs and benefits of scale economies against more streamlined technical networks. Will advanced communications technologies aid in streamlining levels of management through desk access to centralized database management systems, electronic mail and networks, interactive video, telecommunications? If these technologies truly lower the cost of information processing and report generation, they will reduce the need for complex multi-tiered layers of administration. By reducing the labor intensity of regulatory systems, new technologies could free up resources to be invested in reform.

Bureaucracies, with their rules and regulations are designed to handle large numbers of people with some degree of fairness. Unfortunately, they are often not terribly efficient systems because, like most structures and products designed for mass consumption, they can only broadly approximate customer or client demand. School sites, on the other hand, often go beyond the mandates of the state bureaucracy to more closely match student needs and school resources. Schools in the future will build their community credibility by demonstrating their individualized responsiveness and flexibility at the site level.

Schools which are known for their bureaucratic rigidity will have difficulty maintaining credibility with parents and taxpayers.[28] For example, a student in a wealthy suburban district, under extraordinary tragic conditions, was unable to submit a form required for admission to the honor society by the designated date. The faculty voted to deny her admittance because "rules were rules." Almost every parent in the district could afford to send his children to expensive private day schools that took pride in their flexibility and ability to make each family feel special. The superintendent lived in fear that the bureaucratic inhumanity of the faculty would be leaked to the community, triggering an outflow of students to the private sector.

School districts which attempt to be responsive to their respective communities may find those efforts unintentionally hampered by the increasing regulatory constraints of current reform efforts. While these structures allow external funds to flow into districts, they impose relatively rigid monitoring and compliance costs. The move toward increased centralized regulation comes at the very time that school districts need to increase their flexibility and responsiveness to maintain their community credibility.[29]

Every dollar that is spent in monitoring distributive compliance is a dollar not spent on direct services to students. What good will more "equitable" state funding formulas do if increasingly large shares of resources are frozen in regulatory costs?[29] If state legislatures mandate specific requirements for all students, what real costs are imposed on the successful, community responsive operation of school sites?

How can the education profession hope to attract competent building-level professionals when external groups define their discretionary resources out of existence? Many building-level principals have no more than a few thousand dollars out of the entire site budget that are not encumbered by the first day of school. Current state centered reform efforts continue to attenuate the professional choices of teachers and administrators and constrain their ability to design high-quality delivery systems for their students and communities. Is this a democracy run amok, where taxpayers and public policy makers believe that they have the right to rush in and regulate professionals where capitalistic stockholders would fear to tread?

If centralized, bureaucratic decision making continues to flourish, then in the future, new technologies could become perverted. Under these conditions a value for high-quality professional delivery systems could be replaced by a value for regulation. Computer networks could serve as the wicked queen's mirror in *Snow White*, being used to monitor legislative directives and school dwarfs. The state could also generate a cost-effective standardized "teacherproof" curriculum which could deprofessionalize teaching by deskilling job requirements and lowering costs.[31] As a further cost-cutting measure the state then could set common salary scales for this new breed of civil servants. This type of structure would reduce both labor and bargaining costs by more closely coupling legislative directives with student outcomes.

This type of directive, hierarchical organizational design, developed around the turn of the century for a homogeneous mass production environment is the currently prevalent organizational structure of a large sector of the American workforce.[32] It assumes that production occurs almost independently of customer interaction; one sets standards and rules to be uniformly applied to the product and consequently the customer. In mass production industries, standards are set by management and executed by those on assembly lines. It is also a model used by public lawmakers who set rules and charge civil servants with their uniform application. In both sectors, independent professional judgment which meets client requirements leads to exceptions to those rules. Under this model exceptions are not valued; thus independent judgment can be considered an impediment to productivity.

If, however, education is a process which requires highly skilled professional judgment to interact productively with unique individuals, the hierarchical bureaucratic structures that are appropriate for mass production and control are singularly inappropriate for schools. The industrial monitoring costs that ensure the manufactured widgets conform exactly to standards can be very high. The legislative monitoring costs that ensure all drivers conform to speeds of less than 55 miles an hour can be very high. The professional training costs that ensure a doctor confirms a proper diagnosis can also be very high.

Should educational policy makers invest in bureaucracies which monitor rules and pay their employees relatively low wages to carry out those rules? Then, education employees become civil-servant assembly-line workers who act as vessels

for the decisions of others. Or should they invest in highly skilled professionals who exert relatively independent judgment and require minimal monitoring? In the former case, administrative overhead costs are very high because those that have the decision-making skills are at the top of the hierarchy directing the lower-skilled jobs below. In the latter case administrative overhead is lower because those that have the decision-making skills provide services to clients and customers either directly or with a relatively small staff.

Under the latter conditions professional discretion has a powerful impact on the educational process; that discretion requires resources. In this type of organization the most highly valued skill resides in the individual professional's judgment. Organizational structure exists primarily to support that judgment, not to regulate it. It is the building-level professional who decides the appropriate allocation of resources for the student, not the public consumers' representatives in the form of legislators. No state legislator would have the audacity to direct surgery through legislative or judicial intervention; nor under this model would they direct pedagogy.

In the past, education was patterned after corporate mass production models of organization. The problems of cost-effective organizational structures are exceedingly complex. Future research is required to assess more carefully the claim that decentralized, site-based, client-centered professional models may provide more appropriate, cost-effective delivery systems than the current centralized, off-site, allocator-centered bureaucratic models. While professional models are enticing, problems of scale, indirect client payments and other issues require further clarification.

Caution, however, must be noted before any wholesale adoption of an externally generated model or its modification. Schools have unique charges. Students are not patients, they are not sick, and consequently diagnostic-prescription models carry with them tacit pejorative and political overtones which limit student choice. These models were used extensively in the 1960s and 1970s to "identify" and "treat" students who were "disadvantaged." These kinds of models impose unnecessary political and social costs on students. A market-based service sector model provides a less pejorative alternative in which parents and students chose what they believe to be the most appropriate educational delivery system within the guidelines of the law. The assumption of negotiated partnership and choice is stronger in this model, although both medical and pedagogical models rely on the weight of perceived expertise.

How cost-effective are these alternative forms of delivery systems? Traditional methods of using accounting costs are not useful in measuring economic costs which can be observed only indirectly, but nonetheless, produce real effects over the longer term. These include political, psychological and social costs. Future research should examine new ways of including economic costs in formal financial policy processes. Reform legislation could be required to file economic impact statements. Budgeting and accounting systems could formally include economic costs.

Taxpayers, confusing form and function, may believe that greater privatization of educational bureaucracies will free up large amounts of social discretionary resources which could be transferred to more efficient investment in economic development. This would be unfortunate if research indicated that education ineffi-

ciencies lay in the organizational structure of its *delivery* system and not necessarily in its "publicness."

The key words of public survival in the 1990s could become flexibility, credibility and affordability. School districts, state and federal legislatures and bureaucracies will be called on increasingly to prove their credibility to taxpayers who want to see more productive returns on their public investments. One way of maintaining that credibility may be found in the streamlining of monitoring and compliance costs through decentralized, client centered delivery systems.

Implications for Policy

Structural change will require a refocusing of policy arenas. More cooperative strategies will be required to reduce inefficiencies between political and economic markets. Financial policy makers can focus on the interrelationships created by schools, regional tax bases and economic development. States which have a reasonable correspondence between political and economic boundaries may find such efforts lead to greater competitive responsiveness. State legislatures also may want to ask what effects regional structural changes have on schools. What effects do schools have on regional development?

National policy makers will want to attend more carefully to regional development efforts because federal allocative decisions create *de facto* a national development policy. School funding levels have, over time, contributed to an implicit "industrial policy." Researchers in the future may want to make those connections more explicit, particularly on a regional basis.

It is difficult to imagine a region in the future that would not be concerned about its competitive position in attracting, maintaining and generating quality labor capital. Development requires human capital investment that leads to increases in the value of people's time.[33] Schools help form the human capital that will become the base of our future economy. They are a central concern in the development of future tax bases. Flexibility and responsiveness are key concepts in regional cooperation for global competition. Within this process, credibility and affordability are central issues for school districts.

If school professionals successfully meet these challenges, they could emerge from this period of economic transition in major leadership roles in a post-industrial, service-based economy, despite the shifting demographics. Districts have an established community commitment because of their relative immobility and vulnerability. Hence, they are more likely to be trusted than their more mobile private sector counterparts. Second, their ubiquitous nature offers common ground for community discussion. Almost everyone has school experience. This gives school business administrators credibility that business and church leaders would have more difficulty establishing. Third, schools are only indirectly concerned with regional development, and their reflective distance may make them more credible leaders than those with more direct personal investments. Few district personnel see themselves as existing solely to train future workers for local employers.

Fourth, unlike their counterparts in corporations, many school business administrators have substantial experience working under the worst managerial conditions: complex competing goals, grossly insufficient discretionary resources, high public visibility and crushing political vulnerability. Effective managers under

these conditions have developed skills appropriate for management in a political economy. Regional political and economic partnerships that share the competitive skills of the private sector with the cooperative skills of the public sector might produce a healthy future tax base.

These cooperative policy efforts might fund research in alternative financing policies for schools. For example, how have the monitoring and compliance costs of current centralized reform efforts affected the costs and quality of building-level operations? Are public schools unable to compete effectively with private schools because of this regulatory burden? Growing claims of private schools effectiveness must not be overlooked in the search for effective school finance policies.[34]

Could greater diversity in school organizational structures lead to more equal opportunity for students? Are there gains from alternative forms of specialization that could directly benefit students? In a service economy that specializes in individualized treatment of its customers, can educational systems lead the way and still retain their "publicness"?

The future educational system and the tax base that supports it will be shaped in many ways. The investments made in our children will return to us in our old age. Will they be able to support themselves, their own children and their parents as well? Will schools encourage a resurgence of creative reorganization which will lead to a healthy future tax base? Explicitly or implicitly our present choices will mold our children's financial future.

Notes

1. R. Benjamin, *The Limits of Politics.* Chicago: (Univ. of Chicago Press, 1980); E.F. Denison, *Accounting for Slower Economic Growth,* (Washington, D.C.: Brookings Inst., 1979); M. Feldstein, *The American Economy in Transition,* Chicago: (Univ. of Chicago Press, 1980); I.C. Magaziner & R.B. Reich, *Minding America's Business,* (New York: Vintage Books, 1982).

2. V. Mueller & L. Webb, eds. *Managing Limited Resources,* (Cambridge, MA; Ballinger, 1984).

3. A. Inkeles, *The Inter. Evaluation of Educ. Achievement,* v. 4, Proc. of the Nat'l Academy of Educ., 1977.

4. See; R.B. Freeman, *The Over-Educated American,* (New York: Academic Press, 1976); J. Smith & F. Welch, *The Overeducated American?* v. 5, Proc. of the Nat'l Academy of Educ., 1978; F. Welch, "Effects of Cohort Size on Earnings," *J. of Political Economy,* 85 (5) pt. 2 (Oct.): 565-597.

5. R.W. Rumberger, *The Potential Impact of Technology on the Skill Requirements of Future Jobs,* Proj. No. 84-A24, Inst. for Res. on Educ. Finance & Govern., Sch. of Educ., Stanford Univ.

6. B. Bluestone & B. Harrison, *The Deindustrialization of America,* (New York: Basic Books, 1982).

7. S. Pogrow, "Linking Technology Use to School Improvement," ed. A. Odden & L. Webb in *School Finance & Sch. Improvement,* (Cambridge, MA: Ballinger, 127-142).

8. E. Dean, *Educ. & Economic Productivity,* (Cambridge, MA: Ballinger, 1984).

9. J. Buchanan, *The Demand & Supply of Public Goods,* (New York: Macmillan, 1979); E. & J. Browning, *Public Finance & the Price System,* (New York: Macmillan, 1979).

10. A. Odden, "Financing Educ. Excellence," *Phi Delta Kappan* (Jan. 1984): 311-318.

11. J. Chubb, The Political Economy of 'Excessive Regulation', Proj. no. 81-A12. Inst. for Res. on Educ. Finance & Govern., Sch. of Educ., Stanford Univ., 1981.

12. R. Reich, *The Next American Frontier,* (New York: Times Books, 1982).

13. J. Chambers & T. Parrish, "The Issue of Adequacy in the Financing of Public Educ.: How Much is Enough?" Proj. 82-A19. Inst. for Res. on Educ. Finance & Govern., Sch. of Educ. Stanford Univ., 1982.

14. M. Hannan & J. Freeman, "School District Demography & Government," Proj. 83-A22, Inst. for Res. on Educ. Finance & Govern., Sch. of Educ. Stanford Univ. 1983.

15. Educational Research Service, *Annual School Budget Profits* (Arlington, VA)..

16. E. Boyer, *High School*, (New York: Harper & Row, 1983); J. Goodlad *A Place Called School*, (New York: McGraw Hill, 1984); R. Sizer, *Horace's Compromise*, (Boston: Houghton Mifflin. 1984).

17. R. Everhart, ed., *The Public School Monopoly*, (Cambridge, MA: Ballinger, 1982); A. Wise & L. Darling-Hammond, "Educ. Vouchers," *Educ. Researcher*, (Nov. 1983): 9-18.

18. G. Becker, *Human Capital*, (New York: Columbia Univ. Press, 1964); G. Becker, *The Economic Approach to Human Behavior*, (Chicago: Univ. of Chicago Press, 1976).

19. M. McClure & D. Plank, Educ. Statistics for Educ. Policy, Washington, D.C.: Nat'l Center For Educ. Statistics, 1985.

20. S. Bowles, D. Gordon, & T. Weisskopf, *Beyond the Wasteland*, (Garden City, NY: Anchor Books, 1984).

21. Bluestone & Harrison, *Deindustrialization of America.*

22. G. Hentschke, "Assessing the Impact of Enrollment Decline on Operating Costs," *Educ. Economics* (May-June, 1977) 10-15; W. Sharpe, *Investments*, (Englewood Cliffs, NJ: Prentice Hall, 1978).

23. D. Tyack, *The One Best System*, (Cambridge, MA: Harvard Univ. Press).

24. J. Meyer, "The Impact of the Centralization of Educational Funding & Control on State & Local Organizational Government," Report 79-B20, Inst. for Res. on Educ. Finance & Govern., Sch. of Educ., Stanford Univ., 1979.

25. R. Reich, *The Next American Frontier*, (New York: Times Books, 1982).

26. P. Drucker, *Managing in Turbulent Times*, (New York: Harper & Row, 1980).

27. M. McClure, "Textbooks, Library Books, & Budgets," *Book Res. Q.*, (1985).

28. C. Hollister, "Sch. Bureaucratization as a Response to Parents' Demands," *Urban Educ.* (1979): 221-235.

29. M. Kirst, "The Changing Balance in State & Local Power to Control Educ.," *Phi Delta Kappan*, (Nov. 1984): 189-191.

30. Meyer, "Impact of Centralization."

31. H. Braverman, *Labor & Monopoly Capital*, (New York: Monthly Review Press).

32. O. Williamson, *Markets & Hierarchies*, (New York: The Free Press, 1975).

33. T. Schultz, *Investing in People*, (Berkeley: Univ. of California Press, 1982).

34. Everhart, *Public Sch. Monopoly.*