

# Implications of Chinese Education Policy on the Chartering Strategy in the United States

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## **Policy Analysis**

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The Center for Policy Studies is a policy design organization based in Saint Paul, Minnesota. Its website is [www.CenterforPolicy.org](http://www.CenterforPolicy.org).

Since 1964 the Institute for Educational Leadership has been at the forefront of education leadership and reform in the United States. It is located in Washington, DC. [www.IEL.org](http://www.IEL.org).

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This paper reflects the views of the author and does not necessarily represent the perspective of the Global Education Policy Fellowship Program or the Institute for Educational Leadership.

## **EXECUTIVE SUMMARY**

The Chinese and American education systems, and the schools and individuals that work within them, behave remarkably similar relative to the countries' dichotomous economic and social structures.

This paper argues that the similarity derives from the shared structural trait of central management – from the party structure in China; from the central office in the districted sector of American public education, and more recently Charter Management Organizations in the chartered sector.

Centralized authority has been helpful to China in its developing stage, as it was for initial build-out of universal education in America. But while China runs closed system in a closed society, the United States is running a closed system in an open society. So long as it remains a closed system China faces limits on its growth. The United States is experiencing that limitation itself. Indeed, many examples of extra-ordinary success in America occur outside of the conventional school model, despite the confines of school, or by the small portion of the population for whom the conventional model is well suited.

The implication is that the United States must develop a system of public schooling that is more reflective of its successful economic and social sectors: open, dynamic, and thus innovative; with incentives that reward progress and regulation that directs progress in the public interest.

This paper argues American policy should be to establish the conditions of a sound market inside a publicly-funded, publicly-regulated education system. It also argues that the chartering strategy represents a viable means to transition the American system toward a more open, dynamic structure. Chartering as a strategy is commonly misunderstood in the United States, even amongst proponents. The strategy of chartering schools is a way to implement an alternative design for the public education system based on modularity instead of interdependency. It replaces the district structure at a rate determined by student choice.

The paper examines why twenty years since the passage of the first chartering law in Minnesota the strategy is not yet performing as intended. The paper examines why, and offers policy recommendations to get chartering – the most promising strategy for transforming the American education system – back on track.

## INTRODUCTION

This paper compares the Chinese and American education systems, and makes recommendations about ways to improve the structure of the American system based off these observations. The paper is broken into two sections: A comparative analysis of the Chinese and American systems, and policy considerations for the United States.

It seeks to identify the next phase of structural reform in United States education, using the state of Minnesota as a window. Since Governor Rudy Perpich introduced post-secondary enrollment options in Minnesota in 1984, a steady progression of proposals including inter-district enrollment and chartering positioned *choice* as the central theme of American education reform. The legacy of Governor Perpich's leadership has endured for 25 years. Now that choice is underway, what is next? Is there a theme beyond "choice"? If so, what is that theme? These questions guide this paper.

Chartering as a policy is a course of action – a strategy – centered on treating schools as autonomous entities (holding their legal charter directly with the state), instead of a part of an interdependent system (one school of many under a district charter.) It is a modular strategy, focusing on the school as the unit of improvement.

The strategy of chartering schools is a way to implement an alternative design for the public education system based on modularity instead of interdependency. It replaces the district structure at a rate determined by student choice.

To analyze chartering as a policy it helps to first have clarity about the goals the current strategy seeks to achieve. The six objectives of chartering schools laid out in the pioneering Minnesota law provide a guide for policy. They have not yet been accomplished, indicating the strategy is either underdeveloped or incomplete.

This paper argues that to accomplish the original objectives of chartering move to a new theme of individualization combining innovations in school model with innovations in use of technology for learning. It argues the most promising policy strategy is incentive-based systemic reform targeted at creating the incentives that reward innovation toward these ends.\* The paper makes some suggestions.

The paper has been written as a component of the Global Education Policy Fellowship Program (GEPFP), a program of the Institute for Educational Leadership (IEL) in Washington, DC. 21 fellows participated in monthly seminars with experts on different aspects of Chinese government, society, and schooling; as well as a 10-day study trip to tour schools and visit with teachers and administrators in the cities of Beijing, Xi'an, and Shanghai.

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\* One of the most important papers the author has read on education reform was written in 1981 by a physicist, about the American healthcare system. It is significant because it compels the reader to consider the structure and incentives of a system, and how they determine behavior: *Systems of people ultimately tend to perform the way they are structured and rewarded to perform.*<sup>15</sup>

The group was exposed to and learned about Chinese history and culture; as well as the background, structure, and evolution of the Chinese education system.

### **Similar behavior and implications for the United States**

Despite fundamental differences between the two countries in economic and government structure, the Chinese and American education systems behave in remarkably similar ways. There is one prevailing model of school, the pedagogy is lecture-based, tests with limited scope are used as the main form of assessment, students and teachers are assigned to schools, and decisions are made for teachers by administrators outside of the school.

It is notable that two societies structured so differently in most all other regards should have education systems that behave in such similar ways.

This paper hypothesizes that the behavior of the United States and Chinese systems are so similar in part because both systems are centrally managed – China on the national level, and the United States at the district level. And, while centralized management is enabling China to grow its system's scope rapidly much as the United State expanded access during the early 1900's, the external character of decision-making in a centralized system limits the capacity of the U.S. system to utilize new technologies and move beyond the inherent limits of uniformity.

In response to this hypothesis the paper argues that a system better matched to the open and individualized character of American society can lead to a leap in progress.

The paper argues if a dynamic and innovative education system is the goal, then an incentive-based system reform strategy – whereby *policy* changes the *structure* of the system to alter *incentives* that impact *behavior* – is the best available strategy.

### **Systems fitted for developing vs. developed societies**

China, in the early stages of development, is engaged in a rapid build-out of public education. They are expanding access to every gender, race, means and location. They are doing this through the creation of a uniform model of school, organized by a central planning agency of the Communist Party, and administered by local government officials and school leaders.

The United States also went through a building-out period, expanding access, providing education first regardless of geography and income, then gender and race. The American system was built out state by state, with direct and indirect federal involvement. The majority of schools are organized into districts, built on a common platform, and run by public administrators.

Walter Bagehot, the second editor of *The Economist*, observed that this sort of standardization appears necessary during the developing stages of a society. In the very early, primitive stages – such as the recently-settled frontier in America or the state of China's education system after the Cultural Revolution dismantled the entire schooling infrastructure – it helps he says to have an “intense legality,” and a “yoke of custom” that binds people together and concentrates the focus of society and governance on steps needed for development.

Yet people ultimately cannot thrive in this environment and the same framework that enabled rapid growth becomes constricting. “Progress is only possible,” he wrote in 1873, “where the force of legality has gone far enough to bind...together, but not far enough to kill out all varieties and destroy (the) perpetual tendency to change.”<sup>1</sup>

China is in a developing stage, and is benefiting from a standardized system. But this system is poorly matched to the United States both culturally and in terms of its, more advanced requirements for growth. China is running a closed system in a closed society, while the United States is running a closed system in an open society.

Chinese governance relies on the concept of “constructive conformity,” and the force its name conceals. The government issues a dictate, a policy, and the institutions of society are to carry it out. Some time later party officials issue a new dictate after observing progress of the first. It helps the process that government is woven through every aspect of society.

The United States on the other hand is a society of organized freedom. The performance of institutions in the United States depend upon how our systems align incentives so individuals, acting independently or through organizations, choose to behave one way or another. People tend not to do things just because they are told to. The education system does not do a good job motivating students to work hard, so it is unsurprising that many do not. Students in China sit quietly, 40 to a class on benches with no backs. American students do not do that, and it is unreasonable to expect them to.

This might be the source of so much cognitive dissonance in the United States – our system does not appropriately reflect our society. To succeed our system needs to be better matched to our national character, which means it needs to align pursuit of self-interest with the public interest. The system should be as open, dynamic, and innovative as all the other areas of our economy. An incentive-based system reform strategy can address this.

### **Policy design**

This paper is an attempt to apply scientific methods of thought, with emphasis on theory, to education system design. It seeks to apply theory to an update of the strategy of chartering schools as process for changing form one system design to another. The primary theory used is Large System Architecture, a general theory for why large systems behave as they do and a set of methods to change them, developed by Walt McClure, chairman of the Center for Policy Studies. It draws upon Disruptive Innovation, a theory about organizational change originated by Clayton Christensen. The methods for political change come from Dan Loritz, President of the Center.

By relying on theory instead of the author’s own intuition alone, the strategy has a structure that can be engaged scientifically – and criticism and feedback are welcomed.

## PART ONE: THE CHINESE AND AMERICAN EDUCATION SYSTEMS

The education systems of China and the United States at once reflect each country's unique character, while also demonstrating remarkably similar behaviors.

### The Chinese Education System

China has a 3,000-year educational tradition, dating to Confucius. Organized education has been prominent in China since at least 600AD when their Civil Examination system was introduced to identify and place government officials. Social status and access to government and business were closely tied to official standing from the beginning, making education the gate to officialdom and status for subsequent millennia.

The modern education system in China is young. It emerged following the death of Mao Zedong in 1976, which brought the end of the Cultural Revolution that had decimated the civil infrastructure of China – including organized education.

Beginning in the late 1970's and running through the 1980's Chinese officials rebuilt the country's education system at rapid pace by creating schools based on a course and (large), teacher-lecture framework – similar to the factory-style schools in the United States. An estimated 96 percent of students are in public schools, and 4 percent are in semi-private *miniban* schools.<sup>2</sup>

In 1986 the Communist Party enacted the *Compulsory Education Law*<sup>3</sup>, requiring school-aged children to complete a minimum of nine years of schooling. Providing access to education became a top priority for government, and by the mid-1990's this had largely been achieved. Official statistics today show 99 percent+ enrollment in school, but that number perhaps better illuminates the nature of official statistics.

The administrative structure consists of the *Ministry of Education* in Beijing, which issues directives to provisional *Teaching Study Offices*. These interact with Teaching Study Offices which interact directly with *Teaching Study Groups* of schools that behave as overseers.

Despite its policy-making role and array of tools for enforcement, Beijing allows for local interpretation. Kissenger wrote:

“I had assumed that the communist system made for complete unified central control. This was never was so in China. From the earliest dynasties, provincial authorities have enjoyed considerable independence in interpreting imperial edicts, and the further away from the center a province was, the greater its independence.

Five words, *shan gao, huang di yuan* (mountains are high, the emperor is far away), express the cynicism and skepticism of generations of the disaffected who have been short changed by the local authorities.”<sup>4</sup>

Once the expansion of universal access was underway focus on means-adjusted funding across China began. In 2006 a revision of the compulsory education law included in part differentiation of funding levels by the central government to regions, based on their economic status.

Figure 1.1

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***The Compulsory Education Law of the People's Republic of China, adopted 1986 and amended 2006:***

Article 2: Compulsory education is education which is implemented uniformly by the State and shall be received by all school-aged children and adolescents.

Article 3: ...the State policy...shall be carried out to...achieve all-round development – morally, intellectually and physically – so as to lay the foundation for cultivating well-educated and self-disciplined builders of socialism with high ideals and moral integrity.

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The concept of reform is prevalent in Chinese education, and a new *Outline for Medium and Long-term Development and Reform of Education*<sup>5</sup> was published in 2010, looking out to 2020. The focus of this report is on reform of curriculum and teaching style, and does not target basic system structure.

Inspired by progress in primary and secondary schooling, a similar initiative has begun in China regarding higher education.

### **Teaching in China**

Class sizes in China are large, and the pedagogy is teacher-lecture.

Teachers are not compensated well but have opportunity to earn substantial additional income through tutoring for state examinations, a common choice by parents with the means. Teachers are regarded well in society. In the fashion of decrees Article 28 of the compulsory education law states that the whole society shall respect teachers.

Teachers remain in short supply because of the recent decades' rapid expansion of schooling. When intellectuals were sent to the villages during the Cultural Revolution to learn the life of peasants, many became the teachers by default. Today it remains a challenge to get teachers to the villages, though the Government reserves the authority to assign them.

Teachers are regularly observed and evaluated by their peers, the head of school, and government officials.

### **Motivation in Chinese schooling is essentially extrinsic**

Pressure from tests and cultural expectations place powerful extrinsic pressures on students and their parents. There is social expectation for hard work and enduring hardship, and a belief that,

since everybody takes the same national exam success comes down to effort. The nature of this pressure is derived from the limited scope of success within the Chinese system: Only ten percent can be in the top ten percent of those taking the tests. If the tests provide the only entry to the only pathway for success – high-ranked schools – then the funnel effect becomes intense.

### **The central role of testing is a function of the structure of the school system**

Success in examinations is the primary way to succeed in Chinese society. The Civil Exam, which relied on testing, was phased out in 1905 but uniform national testing is remains necessary to route students through the modern education system.

The limited nature of upward mobility creates intense pressure among the students trying to fit through one passage way. The focus on test preparation, including private tutoring, has become so intense that some provinces have forbidden schools from holding classes on weekends.

The extreme behavior of students and families surrounding testing is understandable given their singular role in determining the opportunities available to people in society. Tests are necessary because decisions about enrollment and advancement are not made by students but instead by the Communist Party’s staff. Their strategy to assign 300 million students and teachers to schools each year is to have a single, uniform test.

### **The American Education System**

Unlike China’s mono-system, American education is more appropriately described as a system of systems. Education in the United States is a responsibility of the states – it is not addressed in the federal constitution. Therefore the components of the system with the most significant influence on its behavior exist in state statutes and rules.

In the United States 86 percent of students are in public schools, 10 percent in private, and 4 percent are home schooled.<sup>6</sup> An estimated 23 percent do not graduate, and it is unknown how many of those that do graduate are up to standard. The basic system structure is similar from state to state. Minnesota’s constitution provides for a universal system of public schools<sup>7</sup>:

Figure 1.2

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#### ***Minnesota Constitution, adopted 1857, generally revised 1974:***

Article 8, Section 1. Uniform system of public schools. The stability of a republican form of government depending mainly upon the intelligence of the people, it is the duty of the legislature to establish a general and uniform system of public schools. The legislature shall make such provisions by taxation or otherwise as will secure a thorough and efficient system of public schools throughout the state.

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In 1985 Minnesota began opening up what had been a closed system, beginning by allowing for students in public schools to take courses from colleges – so-called Post-Secondary Enrollment Options – the first form of chartering. Next followed open enrollment, where students in one school district could opt to enroll in another. Then in 1991 the state enacted chartering as it is known today, with the first school opened by direct state charter in 1992.

During these years Minnesota initiated a systemic change to public education in America by introducing a new theme of *choice* through a series of initiatives over the course of 20 years. This created a demonstration-effect, and paved the way for other states to follow.

### **The “chartering strategy” in the United States**

In 1991 Minnesota enacted a statute that allowed organizations other than school districts to create public schools and charter them directly with the state instead of forming as subsidiaries of a district. Having first allowed individual classes to be offered by post-secondary institutions for high school credit, policy makers had removed the exclusive right of districts as Ted Kolderie has described it over the creation and management of public schools.<sup>8</sup>

Other states soon followed and by 2012 all but a few states had some form of chartering.

Districted schools are part of a larger system with many interdependent parts, making it difficult to change one part without affecting the others. Each school created by state charter is independent, and decisions are made at the school site. This modular design makes it more possible for the schools to respond to the incentives, pressures, and opportunities that come with operative, in an environment where students have choice over where they attend.

Minnesota statute identifies six purposes for chartering<sup>9</sup>:

- (1) Improve pupil learning and student achievement;
- (2) Increase learning opportunities for pupils;
- (3) Encourage the use of different and innovative teaching methods;
- (4) Measure learning outcomes and create different and innovative forms of measuring outcomes;
- (5) Establish new forms of accountability for schools; and
- (6) Create new professional opportunities for teachers, including the opportunity to be responsible for the learning program at the school site

Since the law was enacted in 1991 chartering has spread widely across the country. In many urban areas chartered schools account for ten percent of public school enrollment, and growing. Yet despite this growth the process of chartering schools has not yet led to success on the six measures.

The central question for policy is why, and this is considered in Part Two.

## **Teaching in the United States**

Teaching is not attractive to high-capacity university students in the United States, who consistently choose other career paths. It appears to not be seen as a desirable career. Teachers have little professional authority in a centralized system, where decisions are made by professional administrators and teachers are treated as commoditized employees, not professionals. School districts revolve around the system administrators, not the professionals.

While attention has come to focus largely on a battle of labor vs. management, support is growing for what Kolderie terms a “new deal” for teachers: Exchange independence for teachers and schools for accountability to results, including an ability to determine the terms of that accountability.<sup>10</sup>

A more professional arrangement, with unions modeled after professional or trade associations – not labor unions – would provide for much greater flexibility on issues of training, evaluation, and a broader range in the kinds of jobs available within the profession.

The way in to such a model likely involves moving decisions of management and policy to the level of the school, bringing about a more modular design for districts, and granting both schools and the teachers in them greater degrees of self-direction. Such a system would be better matched for the United States, and likely provide the basis to resolve most of the serious problems in teaching today.

## **Motivation in American schooling is intrinsic, but the system is not designed for that**

Motivation in American schooling is intrinsic – students are expected to put forth the effort to learn – but the system is not designed to cultivate motivation. Instead it suppresses motivation, which is likely a central driver behind the high rates of dropouts and under-performers. Young people are inherently motivated to learn. If they are not it likely has to do with the design of the school, not the kid.

## **Similarities and Differences Between the Systems**

Both the Chinese education system and the districted sector of the United States rely on public administrators to implement decisions of management that are made outside of the building. The decisions from central management either manifest directly or indirectly through the implementation of procedures. In both systems the professionals work for administrators.

China is centrally managed at the national level, while the U.S. is centrally managed at the level of the district. As a result they share many characteristics: A singular business model, restricted innovation, reliance on standardized tests.

Their similarity extends to statute, as shown in Figure 1.3.

**Minnesota Statute**

***123B.09 Boards of Independent School Districts***<sup>11</sup>

Subd. 8. **Duties.** The board must superintend and manage the schools of the district; adopt rules for their organization, government, and instruction; keep registers; and prescribe textbooks and courses of study.

**Education Law of the People's Republic of China (translated)**

***Chapter I General Provisions***<sup>12</sup>

**Article 15** The department of the State Council in charge of educational administration shall be responsible for the educational works of the whole country, make overall plans and coordinate the management of educational undertakings of the whole country.

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For central management to be practical the learning model has to be simple and scalable so it is batch-process, organized into classes and moving everyone along at the same pace. Technology, when used, is added-on in support of teacher-lecture – not used to remake the learning experience as it is in other industries.

In both systems testing reigns. So long as someone other than students are choosing schools for them, and someone other than students and parents are judging schools, standardized measures will be necessary.

In the United States charter management organizations (CMO) have formed as organizations that create multiple chartered schools through one organization. CMO's can scale-up effective and well-managed schools, however present a similar prospect for centralization as districts. A more desirable route is to keep the management of a school distinct from the oversight of its operations.

**The limitations of central management**

An unknowable amount of energy, potential, and goodwill are lost among students, teachers, and administrators – and grief created – because the American system. They are lost in the friction of interests that are not aligned.

Central management, when avoidable, is not a desirable way to organize education in a society that recognizes individuals are unique and have their own unique potential.

Some symptoms of the limitations of central management include:

- Trouble utilizing developments in technology
- Suppresses motivation of both students and teachers
- Difficulty accommodating the extraordinary or unorthodox
- Inefficient use of resources
- Labor unions instead of professional associations
- System administrators instead of organizational leaders
- A culture of control, particularly amongst system administrators
- Belief that change is inappropriate, or unnecessary, or not possible
- Limited imagination
- Professionals are subordinate to system administrators
- Administer what is, not rethinking what could be
- Limited concept of success
- Change is conceived as something the central administration does, as opposed to being driven by the “users” of the system (ie, students and teachers)
- When innovation occurs it is done within the framework of the current organizational paradigm
- Paradigm may be challenged by an innovation but pressures eventually bring it back in

The need for economies of scale in public schooling does not appear to be applicable anymore. Small, independent schools are regularly run successfully at half the cost of large, comprehensive schools. Technology now eliminates most any barriers for specialist content, as do agreements with colleges or consortiums of schools.

It is not necessarily the case that adding-on social services will be more cost effective than breaking the school into smaller schools, designed particularly to meet special circumstances or capacities. The next section considers how this might be made to occur.

## **PART TWO: ANALYSIS OF PUBLIC EDUCATION SYSTEM REFORM IN MINNESOTA**

This section provides policy recommendations for the United States, using Minnesota as an example. While looking through the lens of one state, its recommendations may be generalized.

The Minnesota cohort of the Education Policy Fellowship Program uses a framework to analyze policy developed by Dan Loritz (EPFP 1979-80), President of the Center for Policy Studies.

The analysis begins by determining the *problems* that are being observed the symptoms, by determining the cause of those symptoms. A problem is defined as the discrepancy between a goal and actual behavior.

Once the problem is understood, define a *goal* – what is it precisely that is being sought?

After identifying a problem and a goal, *how* will it be accomplished, and what is the *strategy*?

In American education the “achievement gap” is considered a problem, because the goal is for all students to achieve at their capacity and if this were occurring the gaps would not fall along racial lines. This is the discrepancy – the problem.

A goal is to not have an achievement gap. The operable question is *How will this be achieved?* What is the strategy? Can it withstand intellectual scrutiny? Is it rooted in theory? Is there a path for how we can get from here to there?

This section uses that framework to analyze Minnesota’s education system reform strategy, to see if a path forward emerges.

### **THE PROBLEM: The Objectives of Chartering Have Not Been Fully Realized**

The strategy of chartering schools is a way to implement an alternative design for the public education system based on modularity instead of interdependency. It replaces the district structure at a rate determined by student choice.

Chartering was a major structural change in American education. When created in 1991 its framers laid out six objectives. One way to analyze the state of affairs of the policy is to examine how behavior of chartering today does or does not meet the six objectives laid out in the original law. Once the discrepancies between the goals of chartering and its actual behavior are clear, new policy strategies can be formed to try and address them.

#### **Objective 1 – Improve pupil learning and student achievement:**

**PROGRESS:** Unclear. Research does not yet do an adequate job evaluating school performance. Since chartering is a legal process to open a school, not itself a kind of school pedagogically, researchers need

to first break schools created by charter down by type and create sub-categories in order to assess them in a way that can be informative.

Categories might include: Size, pedagogy, organization, student population. Consumer reports has 30 categories for automobiles. Someone looking for a truck likely will not do well with a sports car, so it is important to have that type of expanded information. Customer reviews are perhaps the most enlightening.

There are many schools that improve learning in ways not measured by conventional reading and math tests, but this is usually not captured.

**SHORTCOMING:** The system is way under its capacity to foster higher performance. The amount of potential lost from students because schools do not personalize learning is unknowable.

**Objective 2 – Increase learning opportunities for pupils:**

**PROGRESS:** A wide variety of school, learning, and management models have been demonstrated to work.

**SHORTCOMING:** These models are presently outliers – exceptions.

**Objective 3 – Encourage the use of different and innovative teaching methods:**

**PROGRESS:** They are emerging, particularly among project-based and digital-based learning models; as well as where there are schools run by teachers. Research shows that teachers are put in charge of a school's operation, they change both management and pedagogy significantly.<sup>13</sup>

**SHORTCOMING:** These too are presently outliers.

**Objective 4 – Measure learning outcomes and create different and innovative forms of measuring outcomes:**

**PROGRESS:** As a wider range of school models emerge it has become clear a range of measurements are needed to capture the learning that occurs. “Math and reading scores by themselves tell me almost nothing useful for improving the classroom,” a prominent Minnesota school leader once said.

**SHORTCOMING:** Since 1991 the scope of assessment has grown increasingly narrow.

**Objective 5 – Establish new forms of accountability for schools:**

PROGRESS: Performance agreements are becoming more prevalent, replacing compliance-based accountability.

SHORTCOMING: The bureau-model is slow to change from compliance to contract; may prove unable.

**Objective 6 – Create new professional opportunities for teachers, including the opportunity to be responsible for the learning program at the school site:**

PROGRESS: Teacher-run schools have formed and are running successfully.

SHORTCOMING: The majority of teachers do not know this has occurred, or that it is even possible.

THE GOAL: Accomplish the Six Original Objectives of Chartering

A system that accomplishes the six original objectives of chartering will be a significant improvement upon what we have today.

To review, these six objectives are: Improve pupil learning and student achievement; Increase learning opportunities for pupils; Encourage the use of different and innovative teaching methods; Measure learning outcomes and create different and innovative forms of measuring outcomes; Establish new forms of accountability for schools; Create new professional opportunities for teachers, including the opportunity to be responsible for the learning program at the school site.

The following sections consider how this might be achieved, and provide the outlines of a strategy to put it to action.

HOW: Focus on innovation toward individualization

The theme beyond choice is individualization, and individualization is now possible. Encourage individualization by incentivizing innovation toward the combination of new school models and new digital technologies.

Need system capable of business model change. The most promising method for this is incentive-based systemic reform. There have been enough examples of radically different schools – in pedagogy, school design, management structure – to make evident it is possible to do things differently. Presently they are outliers. Instead of being seen as one-offs should be seen as indications of what is possible.

Begin to look beyond chartering, toward an incentives-based strategy, as opposed to a directives-based or compliance-based. If schools are not evolving as desired, you can't make them do it, and you can't pay them to do it, Dan Loritz says. You need to incentivize them – give them the reason and opportunity to do it.

### STRATEGY: System Change

If the objectives are X, the most promising strategy is to reform the system so that the incentives it creates reward that behavior.

Is an incentive-based system in public education feasible? If it is possible, how to do it?

Policy should to align incentives to create sound market dynamics inside a publicly funded, publicly-regulated education system.

The dynamics of this public-organized market are sound if they reward desirable behavior (as deemed by the appropriate public bodies such as boards and legislatures), and punishes undesirable behavior. Examples of desirable behavior may be improvements in performance, effective use of new digital technologies, and increased voluntary enrollment. Examples of undesirable behavior may be not appealing to students or parents, spending money inefficiently, or otherwise poor performance or management.

Choice is now part of American education policy. Choice is so much a part of the national fabric that the chartering sector has become its own special interest. Unfortunately (perhaps predictably) the associative and advocacy groups of this industry have begun to lose track of the original intent of chartering schools: system reform by changing *incentives*. Chartering is a piece of a larger strategy.

The question now facing policy is whether choice is enough, or if not what is the next phase.

To achieve the goals of innovation and individualization, and to do so affordably, chartering needs to be viewed as a component of a larger strategy of establishing the conditions of a sound incentives-based public system.

The presence of choice puts strong incentives on individuals and organizations in the system. Schools have incentive to attract students, and families have incentive to find the school that is best for their students. Further, those schools that are independent have greater capacity to respond to the interests and needs of students. Yet chartering has not yet accomplished its original objectives. What is missing?

#### **The six conditions required for an effective incentives-based system**

Walt McClure, a pioneer in healthcare system reform, has articulated six conditions necessary for a sound, incentives-based system. They are: (1) A sufficient number of competitors (schools), (1) No collusion by buyers or sellers, (3) Easy entry and exit for competitors, (4) Consumer

information, (5) Proper price incentives, and (6) Proper government oversight and regulation enforcing the conditions.<sup>14</sup>

McClure argues that a system can manage a misfiring of one or two components and still achieve its goals, but more than that and all the goals will not be realized.

Some of these components are present in education, and some are absent – all can be improved. For example the absence of component number four – good, thorough, and readily available information for families regarding schools – has meant students and parents have a difficult time knowing the options available, thus limiting the demand that might otherwise be present for alternative models. Schools miss the cues from their prospective enrollees about what they want.

The following analyses the six components individually, and considers their implications for the education system.

**Condition 1 – Sufficient competitors:** *There needs to be a much greater variety of schools.*

A larger supply of innovative schools are needed to spark the competitive dynamics of choice. A greater supply of innovative schools will help teachers, would-be school entrepreneurs and families understand what is possible. Having attended, been trained into, and worked within a monolithic system, it can be very challenging for people to imagine how things could be done differently. There is no substitute for seeing a different kind of school, either in person or hearing about it from a friend or neighbor.

**Condition 2 – No collusion by buyers or sellers:** *Do not assign students to schools unless they first fail to choose one.*

For the incentives of choice to work most effectively students should not be assigned to schools unless they are first given an opportunity to choose, and decline. Right now there is a “collusive” effect rife through the districted sector, because central offices assign students. Until choice entered the system districts had total monopolies over public education. In many areas of the country that monopoly has been broken, but the collusive effect remains.

By positioning the option to select a school up front, it increases the likelihood families will think critically about alternatives than if they must go out of their way and opt-in to an “alternative” to the “normal” school. In well functioning systems people are in positions to reasonably consider all the options available to them.

**Condition 3 – Easy entry and exit for competitors:** *Replace compliance-based approval and startup of schools with a process tuned to innovation. And, Ease the closure of schools that are ineffective by giving those attending them a more clear and accessible picture of their quality and knowledge of available alternatives.*

FOR ENTRY: The process for starting a school by charter tends to be compliance-orientated, heavy on procedure and seeking to minimize risk by avoiding ideas that have

not yet been tried. This is a reasonable response from a regulatory structure set up to administer the districted, public-utility-styled system to the innovative capacity opened up by chartering.

An alternative is to enable independent non-profit authorizers acting on behalf of the state to set their own criteria for reviewing school proposals. These kinds of organizations may be created with different business models entirely from the bureaus, better tuned toward innovation, betting on the idea and the track record of the people involved instead of relying on a uniform process to judge proposals.

FOR EXIT: One of the virtues of the chartering strategy is that good schools are rewarded with more students and bad schools go out of business. For this strategy to work effectively there needs to be more robust consumer information available (see next) so that families can make informed decisions.

Another method for closing schools is the authorizer of the school (the entity, usually non-governmental, that agrees to oversee the school on behalf of the state) refusing to renew a contract. There is a disincentive presently for an authorizer not to renew a school's charter because they lose the revenue that comes with overseeing that school. One way to alleviate this conflict can be to provide a funding cushion for authorities that choose to discontinue a school's contract. Another strategy is to include in the consumer information regarding schools what organization authorizes them – thus increasing transparency.

**Condition 4 – Consumer information:** *Easily accessible, understandable information on the full scope of a school's character and performance.*

All information necessary for families to make good decisions need to be readily available, in consumer-friendly format, based on a broad collection of metrics that cover every relevant aspect of a school.

Such metrics at minimum should cover the type of school (organizational model; size; learning model; pedagogy), the experience of those in it (student, parent, and teacher satisfaction surveys), and its performance (formative assessments, graduation rate, and other types of assessments). Specialists may develop advanced metrics to measure aspects of schools not presently captured – such as the degree to which they enable students to flourish by pursuing their passions. Standardized school models can only handle excellence that occurs within their specific metrics. As organizations they have difficulty recognizing, accommodating, or cultivating the exceptional or extraordinary, or unorthodox unless they happen to fall within those narrow channels. Many do not.

In their annual auto issue Consumer Reports has 30 separate metrics for cars, from make, model, and size; to user satisfaction, safety, and the reliability of its drive train. There should be at least this many indicators for schools, and published in a similarly accessible format. Judging schools based on math and science scores is like judging a vehicle on acceleration and top speed alone, without even knowing its category.

The work of gathering and making public consumer-friendly information on schools should be done professionally. It could be funded publicly or privately.

**Condition 5 – Proper price incentives:** *Make clear what students get for their time and effort.*

The strongest incentive acting on families is their intrinsic desire to choose the best school for their student. Families do not pay tuition at public schools, but there may be other price-like incentives. For example, as school models develop that individualize the pace of learning a student may progress more quickly – getting more for their time. They may graduate early, graduate with college credits, or gain work experience while in school. Or they may better embrace the time they spend in school. Students know when they are or are not wasting their time. If the system provides meaningfully different options and illuminates them, students and parents will have preferences. Trust them.

**Condition 6 – Proper government oversight and regulation:** *Innovation requires a different regulatory structure – and culture – than administration and compliance.*

There is a tendency by state agencies and the federal government regulators to try and use strong controls on autonomous, non-districted schools like they do for districts. This is in contrast to seeing their role as setting and monitor the rules of the system – and allow local governments to set expectations and hold schools accountable.

The objective of an incentive-based reform strategy is to foster the creation of good schools by creating an environment in which good schools develop and spread and bad schools that are unable to improve close.

The best strategic approach to effective regulation appears to be decentralization: Move control to the level of the school, and hold the school accountable. Make school the unit of improvement, as Ted Kolderie argues. Once you begin getting into centralization the schools become more codified, less adaptable.

Ironically the chartering sector, set up as a decentralized alternative to districts, is at risk of replicating the most limiting characteristics of districts, by enabling charter management organizations to create and manage schools from a central command. A CMO might lead to better-managed schools in the short term, but in the long term an over-reliance on this strategy would hamper innovation because individual schools would lack the authority to recreate themselves.

The most promising strategy here as well appears to be to place the responsibility – and pressure – for oversight onto authorizers. Independent authorizers can be created from the ground-up with business models designed for the recruitment and cultivation of entrepreneurial talent, a higher tolerance for risk, and an internal structure that thrives off reinvention.

## **Policy interventions to ‘tilt’ the system toward innovation**

As components for creating a sound incentive-based system are put in place policy makers can take steps to begin “tilting” the education system as a whole so that inertia begins favoring innovation and individualization.

- **Create larger supply of innovative schools by starting non-profit authorizers that specialize in innovative schools.** By identifying potential school entrepreneurs and helping them start schools such strategy would result in greater diversity than a CMO-dominated strategy that would tend to centralize control and limit variability.
- **Research the outliers to shine a light on what is possible.** Research focused on aggregates has limited use. Instead look at outliers and see what makes them work. What new possibilities can be inferred by observing what has come before? Innovations can’t all be proven to work in advance – they are intuitive leaps, drawing and informed by what has come before. The track record of the school entrepreneur is as important as the evidence backing their prospects, if not more.

Research is relied upon too much the way David Ogilvy says a drunkard uses a lamp post – for support rather than for illumination.

- **Create more measures of performance than test scores on reading and math.** Standardized testing is necessary for central control, when someone else is making decisions for students and teachers. Tests are helpful but limited. It is difficult to make an informed decision about a school based on test scores alone. For informed consumer choice to work there must be multiple measures of success so families can compare based on them.
- **Create a framework in state statute to allow districts to decentralize.** There is a growing movement toward what are being called “portfolio districts” – boards that manage some schools directly in the conventional district mode, and hold performance agreements with other schools that make more decisions for themselves.

State legislatures can create a second definition of board governance alongside the traditional school board – so-called “education board.”

An Education Board would be distinct from a school board in that it does not itself run schools. Instead the district board oversees performance agreements with school sites that make decisions for themselves. This improves functioning at the board level by dividing the oversight and running of schools – and combines accountability and authority at the school level.

This voluntary change seeks to improve schools by offering a “new deal” to teachers and principals, giving the professionals in the schools full ownership in exchange for accountability. It is driven by the belief that those inside schools know students best, need

only to be told what to accomplish and not how to do it, and are motivated most by ownership of their work and responsibility for the results.

- **Create a classification of independent district school that has autonomy codified in statute.** It is also becoming common for states to create a category of district school that makes decisions for itself. In Boston the “Pilot Schools” have a degree of control at the school sites. In Colorado “Innovation Schools” may petition to be exempt from rules and procedures.

Minnesota has the most advanced statute in terms of codifying the independence of such schools in statute. Once an informal site-council and school board come to an agreement, nine conditions of independence kick in: (1) create the site-governing council of the school; (2) determine the leadership model for the site including; (3) determine the budget for the site and the allocation and expenditure; (4) determine the learning model and organization; (5) select and develop its curriculum and...assessment practices; (6) set policies for the site; (7) determine the length of the school day and year and employee work rules; (8) select teachers and other staff consistent with current law and collective bargaining agreements and memoranda of understanding; (9) fulfill other provisions as agreed to by the district and site-governing council.

Clayton Christensen argues that such interference would be necessary because as independent district schools begin drawing students from conventional schools, the political pressure will be intense to erode their independence. When it comes to management tools for running a school – it is all or nothing. If schools are going to be given authority and be held accountable for results, they need full authority, and reign of decision-making.

\* \* \*

In the final judgment what matters is not how a student performs on the indicators put forth by a school or education system but by their accomplishments in the broadest sense of the word.

If it is true that individuals have their own capabilities and passions, then the structure of a school, the system of which schools belong, and the tools used for measuring performance and advancement are impediments unless they are means toward individual flourishing.

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## **AFTERWORD: COMMENTS ON CHINA'S EVOLUTION**

Henry Kissinger (*On China*) on:

*Layers of government:* I gained some insights into how their government works: cumbersome and multilayered, with four layers of authority – central, provincial, city or county, and district. In theory, written directives from the center apply equally across a whole continent. In practice, their battles over turf are fierce and tenacious, each ministry jealously guarding its rights and trying to extend its powers. Intraministry contests and gridlocks are frequent. There is no distinction between a civil servant and a political appointee. The Chinese Communist Party is supreme and anybody of any consequence must have a position in the party. To rise as an official or do well in private business, party membership is invaluable.

*Quality and selection of civil servants:* The quality of the people in charge of China is impressive. With training and exposure to free-market economies, they could equal top executives in America, Western Europe, and Japan. They have capacious minds, analytical and quick on the uptake. Even in casual conversation the subtlety of their presentation shows a sharpness of intellect that can be fully appreciated only if one understands the Chinese language.

I had expected this of the leaders in Beijing, but was surprised to discover the high caliber of their provincial officials, party secretaries, governors, mayors, and senior officials. The thick layer of talent spread over the continent is impressive. Those who get to the very top are not necessarily a class apart from those who just missed it. In a populous country like China, the luck of the draw plays a considerable part in getting to the top even though they have a careful and thorough process of selection, with the emphasis on ability and character, no longer on ideological purity or revolutionary fervor as during the disastrous years of the Cultural Revolution.

One former activist gave me an insight into how the personnel section of the Communist Party of China selects their top talent. Everyone has a file or dossier, which starts with his primary school report, containing not only his academic performance but his teachers' assessments of his character, behavior, values, and attitudes. At every stage of his career, there are records of judgments of his peers and superiors. At every level for promotion, all suitable candidates are assessed before appointment. At the top echelons of the pyramid is a core of between 5,000 and 10,000 who have been chosen and carefully graded by the organization department of the Communist Party, not the government. To ensure that gradings are correct, inspection teams from the center visit provinces and cities to assess the assessors and interview an activist before he is promoted. In case of disagreement, the matter would be reviewed in Beijing. The selection process is thorough, searching, and comprehensive. Finally, at the very top, promotion is done by the leader himself who has to judge not only the merit but also the loyalty of the candidate. It was Deng Xiaoping who chose Zhao Ziyang to be general secretary of the Communist Party and nominally no. 1 in China. It was Deng who reversed his decision after Tiananmen in 1989.

*Tasks and challenges ahead:* In the next 50 years, the Chinese will have to complete three transitions: from a planned to a market economy, from a rural to an urban base, from a tightly controlled communist to an open civic society.

Several factors can derail China from its present track of catching up with the industrial nations. The first and most important is Taiwan, [and the unpredictability of a strong response of Taiwan tries to separate.]

The next factor is rapid technological development. China's political structures must allow its citizens more participation and control over their lives or there will be pressures that could destabilize society, especially during and economic downturn.

A third factor would be the widening differences in incomes, growth rates, and quality of life between the wealthy coastal and riverine provinces and the disadvantaged inland provinces.

The fourth and most profound factor will be the different values and aspirations of the next generation. They will want Chinese society to be equal to other advanced countries in standard of living, quality of life, and individual freedoms.

A breakdown of the banking system, unemployment, an aging population, serious environmental pollution, corruption, and a weak legal system could cause serious disruptions.

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*China model vs. Soviet Russian model:* On my visits, Chinese leaders were at pains to distinguish China from the Russian model, especially Gorbachev. In our meeting in September 1990, Jiang stressed: ...*It won't do that there should only be a single social system in the world...*

Gorbachev was treated in Beijing as irrelevant, not to mention misguided. His modernization program was rejected as ill conceived because it put political reform before economic reform.

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Lee Kuan Yew (*From Third World to First*) on:

*Chinese values:* China will face in some years the tension between its Confucian values of collectivism, and Western emphasis on individual liberty.

China need not abandon its basic cultural values and beliefs in order to industrialize and modernize. Taiwan, South Korea, Japan, Hong Kong, and Singapore had all sought to preserve their traditional values of thrift, hard work, emphasis on scholarship, and loyalty to family, clan, and the wider nation, always placing community interest above individual interest. These Confucian values had resulted in social cohesion, high savings, and investments, which led to high productivity and growth. What China needed to change was its over centralized system of administration and the attitudes and mindset of the people, so that people would be more receptive to new ideas, whether Chinese or foreign, and be willing to test them out and adapt them to China's circumstances. This the Japanese had done successfully.

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