

**CHARTER SCHOOLS: A CONSUMER'S EYE VIEW**

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The title of my address this evening is " Charter Schools: A Consumer's Eye View." What I hope to accomplish during this presentation is a balanced discussion of my experience as a parent of a seventh grader at Black River Public School. It is my hope that these remarks might help elevate the quality of public discourse around an issue that will be contentious for the foreseeable future. To set the stage for our discussion this evening, I need to begin with a couple of preliminary remarks.

First, I need to recognize the role that members of this club have played in making the Black River School a reality. John Donnelly, our current president, is the founding president of the School board. Dr. Jim Van Putten is one of the founding directors. The Padnos family is an early supporter of the initiative, with Mitch Padnos serving in a key board position. In fact, with so many friends and colleagues involved in this tremendous undertaking, one might rightly question the wisdom (or sanity) of my remarks this evening. Nevertheless, I feel compelled to press on, which leads to my second general observation.

I am raising these issues tonight because the Charter School debate is a relatively unique opportunity to cross personal philosophy with personal action. Relative to personal philosophy, I have been raised to accept man's market-based behavior as one of the fundamental organizing principals of society. I am predisposed to believe that free individuals, acting in informed self interest, will make better decisions and work more efficiently than will ideologically charged bureaucracies insulated from the pressure of the market. However, personal belief systems are one thing. It is something totally

different to risk the future of one of your children based on an untried social experiment. My personal decision to support the choice of Black River for my child was one that took a fair bit of careful consideration. Which leads me to my third introductory remark.

The "Reader's Digest" version of my talk tonight, is that the Charter School experiment is a qualified success. As a parent I am pleased with the quality of education that my daughter is receiving. However, I believe that as currently constituted, Charter Schools will not fully achieve their potential of providing publicly funded education comparable to private institutions. I'll offer more on that subject in a minute.

As we begin, it might be useful to start with a brief description of a Charter School and the philosophy which motivates its inclusion in the educational strategy for our state. Briefly put, a Charter School is a school that operates under a state granted charter (as opposed to operating under the supervision of the local school board). Charters are granted through supervising Universities. In the case of Black River, the supervising University is Grand Valley. By operating under public charter, the charter school qualifies for public funding on the same basis as local schools, basically receiving approximately \$5,500 per student per year. The purpose of the Charter School Act was to provide the opportunity for suitably motivated groups within the state to offer an educational alternative to the local public schools.

The theoretical case for school choice dates back to mid-sixties and an influential article by the University of Chicago Economist Milton Friedman. As many of you know, Dr. Friedman is a strong advocate of classical economic theory. In this article, Dr. Friedman applied classical market theory to the problem of public education. He observed that the current system of public education created a virtual monopoly, due to an accidental linkage between the funding mechanism (i.e. taxes), and the provider of

educational services (i.e. quasi-governmental bureaucracies). He went on to observe that based on a theoretical understanding of the behavior of monopolies, you could predict that the public education system would be expected to exhibit low responsiveness to customer needs, inefficient delivery of service, and uncontrolled costs. He proposed that the solution to the current monopoly would be a separation of the public funding from the process of parents and students exercising choice of provider. He advocated a system of universal vouchers, which would allow parents and students freedom to choose whatever school they thought best suited their interests. Schools would then be engaged in competition for students, those that met student's needs would prosper, and those that persistently failed to meet any student's needs would fail, being forced from the market by lack of revenue. By allowing market forces to work, students would get more of what they need, and at a price that they could reasonably afford. And so the debate began.

Today the debate continues. School voucher plans are active in Milwaukee, Wisconsin, some areas of New York, and are part of President Clinton's recent smorgasbord of educational proposals. In Michigan, an early voucher proposal ("Parochi - aide") was defeated in the mid-70's due to a combination of concern about separation of church and state, and the concerted efforts of the Michigan Education Association (As a sidebar, it's interesting to note that the theory of monopoly behavior is equally accurate in predicting union behavior in this issue). Our recent adoption of the Charter School Act is an attempt to allow for school choice, without some of the messy issues raised by a full voucher system. So the question of the evening is: How effective is the Charter School Act in providing educational choice?

It is my experience that Black River (and by extension charter schools in general) are a qualified success. When measured against the standard supplied by the current monopoly, it would appear that the quality of instruction and the quality of educational

experience are at least comparable, and in many instances strikingly superior to our previous experience. It is also interesting to note that in the face of competition existing institutions are beginning to address issues which seemed to elude solution for a number of years. (E.g. The quiet "selection" of an entire 7th grade math class to take the 8th grade curriculum would appear to be the re-emergence of an advanced math program.) Nevertheless, there are two general areas where there can be significant improvement in the implementation of the concept of school choice. The first area relates to the fact that by definition all charter schools are new institutions. The second area relates to certain structural deficiencies within the current charter school program.

With regard to the issue of charter schools as new institutions, understand that under the Michigan formulation, if a parent is going to exercise a choice against the monopoly provider in their area, it dictated a choice of a completely "new", unproved institution. The initial problem is that this makes it very difficult for a parent to judge the actual quality of program (as opposed to the expressed goals and objectives). But if the consumer can get over that initial "leap of faith," there remains some very real, practical problems. New institutions are prone to make errors as they begin operations from "scratch." At Black River, some of these misjudgments included a failure to understand the role and value of administrative staff, and a miscalculation of what constituted a reasonable daily schedule. Now these errors were quickly discovered and rectified. (Note that agility is one of the advantages of a smaller organization.) But a price was paid by staff and students attempting to cope with these avoidable difficulties.

Operational issues aside, the largest difficulty facing a new institution is the establishment of an effective culture. Established institutions have established cultures which are the collective expectations, experiences, and knowledge of the group. The

established culture becomes a way for the institution to operate with predictability and efficiency. Exposure to the culture becomes the way that new students assimilate and find their place within the institution. Charter schools, by definition, have no pre-existing culture. This is a disadvantage for two reasons. First, because it requires a constant effort to define norms and procedures. In an environment where everything is new it takes incredible effort to cope with issues that are decided in established institutions. As an example of this point, last fall Black River had to cope with a rash of smoking on campus. The school was called upon to decide quickly how it was going to react. And while it wasn't a big issue, it still consumed the attention of staff, students, parents and board for the better part of a week. Second, the lack of an established culture makes it difficult for students to assimilate. This is particularly important with Middle School students who seem to have a relatively high need to define themselves by belonging to a group. If the group has no established customs or standards, there is nothing for the individuals to seize, and the result is alienation. Black River has made deliberate attempts to build culture and a sense of community, yet it takes time for culture to emerge. And while waiting for culture to develop, kids are prone to the motivational problems associated with alienation.

To conclude the issue of "newness", it's important to recognize two issues. First, the issue of newness arises because of Michigan's choice to implement school choice through the Charter mechanism instead of by adopting a full voucher program. Second, the problem of "newness" is a relatively temporary one. Presumably, most existing institutions will succeed, and over the long term develop finely tuned operations and effective cultures. However, there are some defects in the Charter initiative which are not transitory and which threaten the long term viability of school choice.

There are two structural problems which threaten the long term viability of the Charter School initiative. The first issue is a lack of capital, and more importantly the lack of mechanisms for capital formation. The second issue is an inherent conflict between the goals of Charter institutions and the current legal environment.

With regard to the first issue, currently it appears that most charter schools have met the need of providing a physical plant through donation of the use of underutilized public assets or through lease of existing facilities. While these solutions meet the immediate needs, it will not meet the long term objectives of these institutions. While it is tempting to adopt the attitude that "facilities don't make the school", evoking Socrates in the agora, or the log cabin schools of an earlier century, the fact of the matter is that effective education does require infrastructure. Gyms, libraries, labs, transportation equipment, suitable classroom space, are all part of providing a quality educational experience, and they all take capital.

Currently the only capital formation tool available to non-profit charter schools is donation. Donations to Charter Schools are encouraged under current law by creating Federal Income Tax deductions and a credit against Michigan state income taxes. However, I suspect that the "newness" element will once again make effective capital drives less effective than they would be for more established institutions. What emerges from this situation is a predictable lack of capital for the foreseeable future.

This lack of capital is particularly telling when we remember that the goal of charter schools is to create a viable alternative from which the educational consumer may choose. Public schools, with the power to tax and issue debt at preferential lower interest rates (i.e. tax exempt bonds), will have a clear and disproportionate advantage in raising capital. One potential solution to this capital problem would be to allow charter schools to issue tax exempt bonds, secured by hard assets, for the purpose of

building facilities. Yet another potential solution would be to allow existing providers of educational services to enter the market through the adoption of a voucher system.

Finally, the second structural problem is a conflict between the goals of the Charter School and the current legal environment. The experience of Black River is a good illustration of this problem. One of the guiding principles imbedded in the original charter school proposal was that it would make sense to allow educators and parents to create places that would cater to specific needs and circumstances. In effect, that instead of having public schools attempting to be all things to all people, that people with specialized needs or interests could band together to address those needs with the assistance of public funding. In the case of Black River, the identified need was to provide an educational experience that would equip a graduate to succeed at top level colleges. The thinking was that while not a common need, there would be sufficient consumer support for a distinctly "college preparatory" institution. The board of Black River carefully considered how to express this vision in a goal statement, and "went to market" to attract consumers.

In the process, an interesting thing happened. It turns out that customers don't always listen to the pitch before they buy the product. In Black River's case, while a majority of the students (rough estimate 60%) choose the school specifically for its emphasis on college preparatory academics, there was a substantial minority (40%) who appear to have chosen the school for other reasons (proximity to the neighborhood, failure within the existing school system, etc.). And so, after the initial enrollment, Black River found itself facing a significant customer base which didn't fit the original goals and competencies of the organization. The conflict with the legal system arises with what takes place after this point.

In a free market economy, I could, as a potential customer, come to this restaurant and request an exotic dish, say roasted quail. This restaurant, also being a free to choose,

would then probably explain to me that quail isn't on the menu, and would probably make an alternative suggestion, say chicken. At that point, as a customer I have a choice, take chicken, or leave. What I can't do is say, "well, I want quail, and I'm going to sit here until you get me some." A more general statement of this principal is that as a customer I can't compel an institution to meet my needs, but I am free to go elsewhere.

Unfortunately for the Charter School, the legal environment in which it functions is not a free market. In fact, the current legal environment was created to attempt to control the behavior of a monopoly and protect the rights of a customer who effectively has no choice or ability to protect their own rights. What this means for the Charter School is that no matter what the statement of goals, the Charter School is legally required to take whoever presents themselves for enrollment (regardless of their "fit" with goals of the institution), and may not, within the bounds of the legal system, even engage in a discussion of suitability or fitness with the consumer. What this means is that today an expressly college-preparatory institution is burdened with attempting to develop not only remedial programs, but also special education for children who fall well outside their original focus. The resulting drain of resources and lack of focus prevents the charter school from achieving its original mission. And the inability to communicate the limits of capacity and institutional focus means that there will be some customers who will not have their needs adequately met, and they won't know why that's happening.

Right about now, you are probably thinking that if we allowed charter schools to openly select students that there would be a formation of "elitist" schools which a contrary to the broadly egalitarian objectives of public education. My belief is that the egalitarian ideal would best be served in an a truly open market place. Remember, that in a truly open market place, schools would compete for students. And in that



competition, there would be institutions developing specific programs to meet the needs of varying segments of the market.

As we conclude our discussion this evening, allow me to summarize my observation in this fashion. Charter Schools are a great first step toward offering educational choice. However, a full voucher system will be the final step in providing true empowerment to parents, students, and educators.