

In K12 Education, Five Forces Are Driving Three Endgames

In the United States, a long battle to preserve the failed status quo in K12 education has been lost. States now face a choice between three endgames that will have momentous consequences for our nation.

Five Forces Make the Status Quo Unsustainable

K12 Has Become a Key Driver of Economic Growth and Income Inequality

Higher rates of economic growth would make it much easier to successfully address the wide range of challenges we face today.

However, as Eric Hanushek and Ludiger Woessmann have shown in their research, in today's world that growth now depends more than ever before the accumulation and application of cognitive capital, and therefore on K12 performance.

Cognitive capital is also more critical than ever before to corporate success. For example, according to a recent study by the Boston Consulting Group companies that are "talent magnets" increased their revenues 2.2 times faster, and their profits 1.8 times faster than "talent laggards" (see, "*The Global Leadership and Talent Index*" by BCG).

Finally, there is strong evidence that the widening gap in corporate performance is also an important driver of worsening income inequality (see, "*The Best Versus the Rest*" by Andrews et al from the OECD).

Student Achievement Has Stagnated, While the True Bar for College and Career Readiness is Rising Exponentially

Depending on how they are measured, US student achievement results have stagnated for a decade or longer, even as rapid improvements in multiple technologies have been exponentially raising the real bar for

college and career readiness. Meanwhile, student achievement results in many other countries have been rising relative to those in the United States.

In sum, the gap between the results we need from K12 – to stay competitive as a nation and for our kids to succeed in an intensely challenging global economy -- and the results we actually are getting has been widening at an accelerating rate. Each year our schools are graduating tens of thousands more kids who will struggle in today's world. Parents can see that. And more and more of them are angry.

In Most States, There Is Less Money Available for K12

According to the latest data from the National Center for Educational Statistics, real per pupil K12 spending in the United States increased by 27% between 1990 and 2012. Real spending on salaries and supplies was flat, while spending on employee benefits rose by 50%.

Flat or declining real median household incomes have weakened voters' ability to pay higher taxes to spend more on K12, while stagnant student achievement results have reduced their willingness to do so.

At the same time, most state legislatures are confronted with the need for more infrastructure investment and an explosion in social safety net spending, as a rapidly rising number of people struggle in today's economy.

At the district level, too many K12 leaders have worsened these funding problems through their unwillingness or inability to clearly link goals to the activities performed to reach them, and those activities to operating and capital costs, in order to explain where the billions they already receive are being spent and why even more taxpayer money is needed to substantially improve achievement results.

Guilt-based political appeals to increase K12 funding ("we're not spending as much as they are!") will increasingly be rejected by voters as long as student achievement stagnates and district finances remain opaque.

Many Teacher Pension Plans Are Facing a Crisis

The extent to which K12 defined benefit pension plans are underfunded is

now more transparent on district balance sheets, and more widely recognized by the public, thanks to Government Accounting Standards Boards Statements 67 and 68, and the work of multiple academic researchers (e.g., "*Hidden Debt, Hidden Deficits: How Pension Promises are Consuming State and Local Budgets*", by Joshua Rauh, published by the Hoover Institution; and "*Financing State and Local Pension Obligations*" by Gale and Krupkin, published by the Brookings Institution).

In the absence of impossibly high investment returns, there are only a limited number of painful options for resolving the teacher pension funding crisis: (1) a substantial tax increase; (2) substantial cuts in K12 program funding; (3) a substantial increase in employee pension contributions; and/or (4) a substantial cut in teacher pension benefits.

Without substantial gains in student achievement, it will be extremely difficult to convince voters to pay higher taxes and/or accept deep cuts in K12 program spending in order to bail out teacher pensions.

Most K12 State and District Cultures are Deeply Resistant to Change

This issue goes well beyond the actions of the teachers' unions to preserve the status quo. Even if unions disappeared tomorrow, deeply entrenched district cultures and many other advocacy groups (e.g., those representing school boards and superintendents) would still seek to block substantial district and school level change.

Their actions include those intended to weaken performance feedback mechanisms in K12 (e.g., attacks on testing and promotion of "opting out"); to weaken parents' ability to escape failing district run schools (e.g., through attacks on charters, innovation zones, and school closures); and to constrain the ability of schools and districts to adapt (e.g., supporting state laws that make teacher dismissals practically impossible, limiting the ability of districts to differentiate teacher compensation based on anything other than seniority and academic credentials, fighting the use of alternative teacher certification, fighting the expanded use of technology to address teacher shortages and capability gaps, and generally doing a very poor job of systematically selecting, implementing, evaluating, and scaling student achievement improvement initiatives).

In the face of these five powerful forces, the failed K12 status quo cannot

survive, and states must soon decide on the endgame they will pursue.

Three Possible Endgames

The first endgame is a **virtuous circle**, similar to the path that the Canadian province of Alberta has followed over the past twenty years. In this scenario, staunch defenders of the status quo agree to changes that have heretofore been considered too painful, which result in substantial student achievement improvement.

In Alberta, such changes included the deeper involvement of the business community in K12 (e.g., to help the province and districts strengthen their innovation, management, and governance processes), establishment of a model provincial curriculum, and elimination of curve based grading. (In Quebec, a similar improvement program included a new requirement that all math teachers have math degrees).

The resulting improvement in student achievement performance and K12 resource efficiency triggered voter support for higher taxes and additional investment in K12, which further accelerated the pace of improvement while also closing the teacher pension funding gap.

In the second endgame, defenders of the status quo successfully block substantial district level change, which drives **increasing flight to charter schools and other forms of choice**. Unfortunately, this is unlikely to be the panacea that some hope it could be.

The rapid expansion of charter schools faces significant constraints beyond regulatory obstacles, including a shortage of management teams, scarce facility financing, and limited capacity for outsourcing administrative functions.

Increased flight to charters is also likely to intensify the current conflict between those who believe that school choice is a sufficient goal in itself, and others who believe that as long as taxpayer funds are being used to pay for K12 education, the community also has the right to determine whether increased choice is producing better student achievement results, given their importance to economic growth.

In addition, even if charters are able to attract a sufficient supply of high quality teachers (e.g., through expanded use of mid and late career

hiring, similar to the “Now Teach” program in the United Kingdom – www.nowteach.org.uk), new team members are unlikely to want to participate in current defined benefit pension plans.

First, there is increasing criticism of the structure of many of them, specifically, their heavy back-end loading, which substantially skews benefits towards educators who stay in the profession for many years (e.g., “*Negative Returns: How State Pensions Shortchange Teachers*” by Adelman and Johnson, published by the Urban Institute). Second, their financial situation is increasingly precarious. Consequently, it seems likely that most new charter school teachers will prefer hybrid or 403(b) plans. At some point, a substantial and painful restructuring of teacher pension plans will be an inevitable part of this endgame.

The third endgame is **a vicious circle** that most people would prefer to avoid, but into which states can all-too-easily slip. If short-sighted defenders of the K12 status quo successfully block significant state and district reforms as well as the expansion of charter schools and other forms of choice, the results are likely to be very ugly indeed – a Pyrrhic victory of epic proportions.

As American students fall further behind both their global peers and the pace of technological change, US economic growth will slow or stall, inequality will worsen, pressures on state budgets and pension plans will intensify, and fights over state taxes and spending will become even more polarized and bitter than they are today.

In the worst cases, full-blown fiscal crises will result, which could include default on municipal debts, the flight of employers and taxpayers to more attractive locations, and a final fight over shrunken state budgets between public pension beneficiaries and social safety net clients. K12 should not forget that there will be far more of the latter than the former in this last bitter battle.

And so we stand today on the cusp of a great disruption in K12 education as powerful forces finally undermine the failed status quo. What remains to be seen is the mix of state endgames that will emerge, and whether their net effect will be to accelerate our nation’s renewal or speed its decline.

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