

More Bang for the Buck

Here's an education reform that costs nothing, yet results in significant improvement.

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Most research on charter schools, and the most intense public debate over their desirability, has focused on their impact on the students who attend them. But charter school proponents also hope that the competition will spur conventional schools to higher levels of achievement.

Can competition from a new kind of public school inspire conventional schools to improve? We addressed this question by examining the link between the establishment of charter schools in North Carolina and average student proficiency rates at the conventional public schools most affected by the new source of competition.

In three short years, from 1996-1997 to 1999-2000, the final year of our analysis, the number of charter schools in operation in North Carolina rose from 0 to 74. By 2004-05, the number had grown to 99; state law currently caps the total at 100.

Because the effects of competition on the performance of conventional public schools can be best identified during periods in which the amount of competition is changing, these years offer a convenient way to test the effects of charter schools.

Of course, school choice was not altogether absent in North Carolina before 1997-98. Back then, it was largely limited to choosing to live in a particular district, enrolling a child in a private school, or educating him at home. Roughly 70% of districts also offered parents some choice among public schools or the option of applying to a magnet school. Our results should therefore be interpreted as the effect of introducing additional competition.

As in most states, North Carolina students can leave a conventional public school and enroll in a charter, at will and for free. Charter schools may not discriminate among students by ability, socio-economic status, or eligibility for special education.

Even so, there are reasons to suspect that the amount of additional competition provided by charter schools is relatively modest. Despite the rapid growth in the number of charter schools, the 12,000 students enrolled in charters in 1999-2000 represented just 1% of North Carolina's 1.25 million public-school students.

Moreover, before granting a charter, sponsors must consider local impact statements prepared by the district in which the school will be located. Perhaps for this reason, many charter schools in North Carolina target at-risk students and presumably do not pose a competitive threat to conventional public schools.

Finally, research conducted by Bifulco and Ladd indicates that North Carolina charter schools during this period may have been less effective in improving student achievement than conventional public schools, at least for students who attended both charter and conventional public schools between grades 4 and 8.

All these factors, taken together, indicate that North Carolina provides an unusually-stiff test of the theory that charter schools will spur improvement among conventional public schools.

The influence of a nearby charter school on conventional public schools in the area depends, in part, on the credibility of students' threats to switch to the charter. Those threats become more credible as the distance between the schools decreases. We therefore based our measures of the extent of charter competition on the school's distance from the nearest charter schools.

Average performance among conventional public schools increased from 67% in 1996-97 to 75% in 1999-2000 as the number of charter schools in the state increased from 0 to more than 70. Is there a connection between these improvements and growing competition from charter schools?

To answer this question, we examined whether the annual changes in performance made by conventional public schools during this period were more positive in schools with charter schools nearby than in schools not facing charter school competition.

These comparisons provide consistent evidence that charter-school competition improves the performance of conventional public schools. The effect is statistically-significant for four of the seven measures of charter-school competition, and falls just short of significance for the other three.

The results indicate that, all else being equal, the presence of charter-school competition increases conventional school performance by about one percentage point. This represents more than one-half of the average achievement gain of 1.7 points made by public schools statewide and is, from a policy perspective, non-trivial. How non-trivial?

In 2002, the governor's office proposed a \$26 million increase in the state budget to reduce average class size by roughly 1.8 students. The relationship between changes in the student-teacher ratio and changes in school performance is not statistically-significant; however, the governor's figures, if taken at face value, suggest that his plan would increase scores by roughly 0.36 percentage points.

By contrast, our data indicate that opening a charter school would increase public-school test scores by one full percentage point (1.0). Expanding the number of charter schools therefore appears to be a promising, alternative to lowering class size.

Since state funding follows the student, an increase in the charter-school system requires no increase in spending. As such, it represents a far more cost-effective way to raise test scores than class size reduction.

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