

Book Review:
Monk, DH and HJ Walberg. 2001. (Editors). *Improving Educational Productivity*. Information Age Publishing: Connecticut.

This is a useful book, coming out of a 'Laboratory of School Success' conference in December 2000. There are ten contributions across the economics of school finance, sandwiched between an introduction and conclusion by the editors. Each of the contributions is interesting, and together they are a nicely up-to-date summary of the literature.

Downes and Figlio (Chapter 2) review the impact of tax revolts (and finance reform) to restrict spending on education. They find that such restrictions do reduce educational quality for public-school students (and in one case for private-school students). They then discuss how this result – less money matters – can be squared with Hanushek's view – more money doesn't matter. Perhaps it cannot be squared; but one suggestion is that rent-seeking administrators accept more money for themselves, yet are able to pass money reductions onto instruction expenditures. Another suggestion is that the rent-seekers are experienced teachers. There may also be negative incentives from a tax revolt, in that teachers see that future additional effort is not going to be rewarded. Overall, this is an excellent review paper – savvy, lots of recent references, and pretty compelling that these revolts have reduced performance.

Murray (Chapter 3) reviews the evidence on the impact of court-mandated finance reforms. This review is based on papers published elsewhere (e.g. *American Economic Review*), but it is in a shorter, simpler form that students might like. Again, it underlines the argument that these reforms are not zero-sum.

Goldhaber (Chapter 4) produces a lengthy review of the ideas of competition and choice. This review is quite similar to that produced by McEwan (2000), raising the same concerns about the general equilibrium effects of vouchers, and the concern that such vouchers are not a straightforward instrument. Again, the proposition is advanced that competition improves outcomes, although again there is only a limited attempt to place a numerical figure on these improvements. One less well-noted concern is over comparisons between schools, given that schools exist on a continuum of quality – there is a concern that those private schools participating in voucher experiments are those most likely to perform well in the experiment, and perhaps that the public schools in these experiments are the lowest performing schools.

Eide (Chapter 5) gives a review of the economics of grade retention. First, he mentions the costs (on average, about 1 in 7 repeated at least one grade); the cost is perhaps \$2.6bn per year. Second, the benefits of grade retention appear to be negative – even with the extra year, retained students perform worse than those of the same ability but who were not retained. (Although some of the economic evidence suggests that there are benefits in higher future wages from being retained).

This chapter is interesting too, for its discussion of the economic decision to be retained. Analogous to Manski's (1989) model of drop-outs, Eide reports on a model of retention whereby retention is an optimal decision by the parents, the student, and the school. Optimality is determined where the benefits exceed the costs, and the benefits are in terms of future wages. Yet the parent does not pay the costs, so the decision to retain is unlikely to be optimal in the full sense. Similarly, if the teacher makes the decision

then he or she must bear the cost of having a larger class in the following year; yet the teacher gets none of the benefits. An academic cut-off would be optimal, but the difficulty then is who would make this cut-off, without internalizing the costs to themselves (teacher) or not internalizing the costs (parent). This model also dovetails nicely with the incentive models for examinations. The chapter concludes with a discussion of possible datasets, and the common problem of empirical estimation when there is a lot of endogeneity.

Loeb (Chapter 6) discusses teacher quality; this too has a light tone in setting out important issues. Schools differ a lot in the average characteristics of their students; at issue is what these differences mean for student outcomes. Even though such disparities exist, teachers do respond to incentives, both pecuniary and non-pecuniary. This Chapter is a review of this literature, preliminary to introducing data for New York.

Schwartz and Stiefel (Chapter 7) give an overview of how to measure school efficiency, referring to all the main techniques. For students with no background in production function studies, this is an excellent review: it is not overly technical and discusses many of the important issues.

Rubenstein and Iatarola (Chapter 8) analyse costs data from New York City. Again, as a costing analysis, this is a useful up-to-date exposition of how resources are allocated. (The Tables are terribly badly printed though, running over pages). These are data I think would be worth using in the class on costs (which I am teaching), so included below is quite a bit of detail. There are lots more tables with dis-aggregations of costs. However, as the authors recognise “schools in most districts have limited flexibility to allocate resources”; thus inferring optimal allocations from a correlation between performance and actual resource deployment is problematic.

Taylor (Chapter 9) revisits the Hanushek – Greenwald, Hedges and Laine debate over whether resources matter. There is a nice review of how the production function studies have varied according to: choice and measures of educational outcomes, explanatory variables, and control variables. As if this were not enough, there are differences according to: (2) unit of analysis (school/student); (3) geographical scope; (4) functional form (levels or value added); (5) estimation technique (IVs etc.). Taylor then compares the Hanushek approach of vote-counting over the more intricate meta-analytical approaches of Combined Significance Methods and Effect Magnitude Estimation. Taylor then tests for resource effects using NELS, CCD and a TCI dataset, finding that there is a link between math performance and resources (the results are discussed, rather than reported).

Hussain (Chapter 10) goes into further detail as to the productivity of inputs. He finds that school inputs matter more for low-performing schools and that incentives matter (yet these are not deployed enough to motivate effort). The model is quite detailed, and the tests involve NELS.

Ludwig (Chapter 11) considers how instrumental variables can be used to improve identification of resource effects. The most common estimation problems are caused by self-selection, and this generates bias. Generally, the failure to use appropriate adjustments results in overly pessimistic appraisals of the benefits of educational resource investments. Ludwig reviews some of the literature, generally arguing that instrumental and experimental approaches are better (although there are no direct comparisons here

between cross-sectional OLS, and IV approaches, but see Ludwig and Bassi, *EEPA*, 1999).

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