

## Diseconomies of School District Size

Gary M. Galles  
Robert L. Sexton  
*Pepperdine University*

In 1942, there were 108,579 school districts in the United States. A little over 50 years later, school district consolidation has reduced this number to less than one seventh its previous level, with many times the enrollment per district of the earlier period. Some big city school districts, such as in New York and Los Angeles, now serve over 600,000 students.

This massive school district consolidation was driven by the presumption among education professionals that there were economies of scale in education (lower costs or greater value provided per student for larger numbers of students). But while educators have argued for economies of school district size, often resulting in the creation of massive school districts in search of promised efficiencies, they have not demonstrated those efficiencies in practice.

In fact, the accumulated evidence points to the clear conclusion that, except for consolidations of very small districts, there are no economies of scale to local education.<sup>1</sup> That this common answer is generated across many studies with different methodologies, data sets, and time periods strongly indicates that it is time to undo the overly centralized system that has been constructed, if taxpayers are to get their money's worth and students are to be adequately served. That is, it is time to undo the wave of consolidation that educrats have imposed on American public school districts and that persists today,

<sup>1</sup> See, for instance, William Niskanen, "Student Performance and School District Size," Paper presented to the Sixth Annual Critical Issues Symposium: "Competition Among Governments, Efficiency, and Economic Growth," Florida State University, March 8-10, 1990. Similarly, Herbert J. Walberg and William J. Fowler, Jr., in "Expenditure and Size Efficiencies of Public School Districts," *Educational Researcher*, October 1987, found that "The results contradict the hypothesis sometimes put forward that large districts are more efficient ... These striking trends confirm other recent studies of district size and suggest that the policy of district consolidation undertaken by states in this century may have hurt rather than helped learning since they suggest diseconomies rather than economies of scale."

despite the lack of empirical support or convincing arguments that it achieves its purposes for either students or taxpayers.

The fact that empirical studies consistently indicate diseconomies of school district size with respect to student performance, exactly opposite the economies claimed by consolidation supporters, suggests that we question the adequacy of the "optimal school district size" theory those consolidations were based on. This theory is indeed lacking. Larger scale, centralized organization fails to efficiently provide school services because it produces adverse incentives that swamp any advantages centralization may have. And those commonly overlooked incentives are the key to an informed understanding of school district organization.

As public choice theory clearly informs us, the details of the economic incentives facing decision-makers are crucial to an understanding of any institution.<sup>2</sup> School districts are no exception.

One of these important details is that in education, there is no clearly defined maximand – in fact, educators are far from agreement on what set of outputs to measure, much less on their relative importance. One result of this is that teaching is an art, practiced differently by people with different capabilities and instructional approaches. It is not an objective science that points to a single set of proper practices which can be uniformly imposed from a centralized decision-making authority.<sup>3</sup> One consequence is that the centralized directives that characterize overlarge school districts often force teachers away from what works best for their students.

It is hard to find the logic for economies of scale in centralizing control over something universally admitted to be an idiosyncratic art whose output we have trouble even defining, much less measuring accurately (you don't see many artists who have found economies of scale in joining together on a large scale to produce better art). Centralization, with its top-down bureaucratized system, precludes any real educational accountability of teachers to parents or students. Rather, it leads to teachers being accountable to the central

<sup>2</sup> See, for instance, James Gwartney and Richard Wagner (eds.), *Public Choice and Constitutional Economics*, JAI Press, 1988.

<sup>3</sup> See John Chubb, "Making Schools Better," *Manhattan Paper No. 5*, Manhattan Institute for Policy Research, 1988, pp.7-8.

administration for doing what they mandate.<sup>4</sup> Rather than improving educational achievement, those rules are more often the barrier to schools and teachers being able to better accommodate the wishes of students and their parents in search of better education.

Not only does public education have no clear maximand, such as profits in the business world, which would give educators a more objective indicator of whether their customers think they are on the right track, but monitoring of public schools is also much less diligent than for similar private undertakings.<sup>5</sup> This is increasingly true the larger the district involved, because any individual parent's involvement and input become less and less likely to change policy as a result. This reduced incentive for active involvement in turn opens the door for centralized school districts to create policies and programs with little real parental input and then to maintain them even if they fail to improve the education that is delivered.

This is why those schools with strong, accountable principals and agreement on academic success as the primary goal can produce superior results, whether in large or small districts, public or private schools. However, the larger the school district, in general, the more hierarchical it is, and the weaker is the principal's authority, the agreement on goals, and the extent of monitoring. It is not surprising, then, that larger school districts do consistently worse by their students than smaller ones.<sup>6</sup>

Looking at some of these incentives created by overly centralized public school districts helps us see why there is an increasing level of support for school voucher plans throughout the country. Parents see that as a way to reestablish real accountability where other "reforms" have failed. However, such proposals seem doomed to failure at this time because of opposition from politically powerful teachers' unions.

Another approach being proposed is simply to break up large

<sup>4</sup> John E. Chubb and Terry M. Moe make this point in "Autonomy and Accountability," *Cato Policy Report* 12(1), January/February 1990, p. 12: "...the accountability that would be provided by market forces is different from the accountability that is provided in the current system. Schools would be more accountable to students, parents, and teachers less accountable to bureaucrats, politicians, and the interest groups that influence them."

<sup>5</sup>See Gary M. Galles, "Strike Made Small Progress Against Monopoly School Problems," *Los Angeles Daily News*, June 1, 1989, p. 25.

<sup>6</sup>See John E. Chubb and Terry M. Moe, *op. cit.*, pp. 4-11, and Seymour Fliegel in the same publication, pp. 11-17.

school districts. However, that approach faces the risk of breaking up school districts in an ineffective way – one which did not significantly improve incentives – such as might result from the political clout of teachers' unions and administrators in forming the details of the replacement organizations.<sup>7</sup> Further, a move to merely break up larger scale local monopolies into more, smaller local monopolies, while still denying parents and students any substantial school choices beyond which monopolistic district to live in, could hardly be termed true accountability. Such "reforms" would be unlikely to succeed at anything more than eroding the underinformed public's support for the sorts of real structural reforms that would make a contribution to educational quality.

Even where voucher or breakup reforms are politically infeasible or would be undermined by teacher union opposition or restrictions, one approach that still gives cause for hope is that of transforming large school districts from financing and administrative entities into financing entities alone. Such a transformation would dramatically expand parental choice, by replacing centralized district command and control mandates with a mandate to please their real customers, however that is to be accomplished.<sup>8</sup>

The difficulties encountered in appropriately designing workable reforms of the current overcentralized school system also remind us of how important decentralization will be to future advances as well as current ones.

When consolidation fever took over the education literature, it did so in the absence of evidence, pro or con. By the time that evidence had begun to accumulate against larger school districts, however, a substantial set of interest groups had been created which strongly opposed stopping or reversing the centralization trend. Further, those interest groups have been able to take advantage of rational ignorance of voters and parents (itself a product, in large part, of the unresponsive nature of public school monopolies) by

<sup>7</sup>An example of this sort of structural change would be one in which teachers could not be fired regardless of performance, or in which more successful teachers' only rewards for higher popularity were more students, classroom crowding and work, but not higher pay, and less successful teachers faced the reverse.

<sup>8</sup>The analogy to the choice between command and control and effluent standards as strategies of pollution control seems quite strong in this case.

making the plausible sounding argument that better education lacked only more funding, not substantial reform.

These pro-centralization interest groups, combined with the perpetual excess demand for public education services caused by their zero direct price to the recipients, has allowed the public education lobby to effectively act much like budget maximizing bureaucrats.<sup>9</sup> Teachers and administrators have used the bargaining advantages of larger district size to extract better terms from school boards, but the geographically restricted competition allows them to capture those gains for themselves rather than passing them on to their "customers" in higher quality educations.

Unless school choices are decentralized, these conditions will lead to effective opposition to any attempts at reform, in the future as well as in the present, that do not also advance the self-interest of administrators and teachers. But administrators in particular are unlikely to support even highly productive reforms that reduce their power and incomes, as decentralization would. If that hurdle is not overcome now, it will remain an obstacle to meaningful reform until it is.

Despite the discouraging consequences of America's trend toward more centralized public school systems and the difficulties encountered in trying to undo that centralization, there are increasing signs of hope. The failures of our educational system are becoming increasingly well documented, and that adds to the public outcry for effective reform, without which advances would be impossible. Further, as the differences between the educational gains touted by school centralization advocates and what has actually occurred are increasingly highlighted, the theories behind that movement are being more widely seen as without merit. This is not only bringing the education lobby's expertise in solving our current school problems into question, it is progressively opening the way for advocates of meaningful educational choice to demonstrate the power of competition and the incentives it generates to a usually inattentive public, whose attention has been attracted by the magnitude of the crisis.

<sup>9</sup> See Niskanen, William, *Bureaucracy and Representative Government*, Chicago, Aldine, 1971.