

American Business and Public Education: Challenges and Opportunities

American business and public education have both played a key role in creating an economy that is the envy of the world. In the new knowledge-based global economy, however, American business and public education face serious challenges. For example, business needs a highly skilled and innovative workforce to succeed in this new global economy, and public education needs a modern infrastructure and adequate and equitable resources to attract and retain a high-quality teaching workforce and meet the educational needs of an increasingly diverse student body.

Unfortunately, the education and business communities are stalled in an unproductive debate over money and test scores. The business community tends to support tax cuts and subsidies, privatization, and performance pay for teachers, stating, "We are not paying one cent more until we see some results." The education community argues that the current focus on tax cuts and subsidies undermines our schools' capacity to provide equal educational opportunities to all students, and our "one-size-fits-all" system of high stakes testing and punitive accountability is bad for America's economic future. Meanwhile, the overarching purpose of public education — creating a prosperous and civilized society — is forgotten. The irony is that nations that outperform us on international tests don't even have the onerous testing and accountability requirements we do, and only three of our competitors pay teachers less than we do. The longer we prolong this debate, the more harm we'll do to both business and public education.

How can we leave this unproductive debate behind and find ways to work together for a better economic future?

Challenges Facing Business

A review of some of the most recent economic literature, such as Elhanan Helpman's *The Mystery of Economic Growth*, David Warsh's *Knowledge and the Wealth of Nations*, and Lester Thurow's *Fortune Favors the Bold*, shows that economies grow through innovation and investment in human capital. Yet, business supports outdated policies that revolve around tax cuts and subsidies. These policies undermine our capacity to invest in public education — our human capital. In the end, both business and public education suffer.

Business leaders often advocate pay for performance in education. But this fails to recognize how performance pay policies could cause manipulation of data, corruption, and long-term harm to the U.S. economy.

Consider the following facts from John Bogle's *Battle for the Soul of Capitalism*. Between 1980 and 2004, American companies on average projected their annual earnings growth at about 11.5 percent. CEOs of these companies delivered only half of that projected growth rate, and even that was because of aggressive marketing that inflated the value of company stocks. (For example, the average price-earnings ratio of the companies' stocks went up from 8:1 in 1980 to 32:1 in 2004.) In the end, American companies grew less than the economy. Adjusted for inflation, the earnings of companies grew at about 2.9 percent per year, whereas the economy grew at 3.1 percent.

Now compare this company performance with CEO pay. The average CEO pay in 1980 was about \$625,000 a year and was in a ratio of 42:1 with average worker pay. In 2004, the average yearly CEO pay was \$9.8 million and was in a ratio of 300:1 to worker pay. (In our competitor nations, the ratio of CEO to worker pay is still about 40:1.)

Why did CEOs' pay keep going up when their companies' performance kept going down? Because CEO pay was tied to performance and they manipulated earnings data to get that pay, even if it sometimes involved corruption. Remember Enron, WorldCom, and Tyco? More than 2,000 companies, notes Rosabeth Moss Kanter in *America the Principled*, have settled out of court with the Securities and Exchange Commission. There are many good CEOs, but the last 25 years suggests that the performance-pay model has not been a success story in business. Many CEOs got rich through aggressive accounting practices, leaving shareholders, workers, and students behind.

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Challenges Facing Public Education

Public education faces serious challenges because of schools' lack of capacity to provide equal opportunities for all children to learn. This lack of capacity is visible in many ways — poor school infrastructure (especially in inner cities), high teacher turnover, low teacher salaries, and overall school environments that are not conducive to teaching and learning. Almost half of our nation's school buildings are unfit for teaching and learning. Almost half of all new hires leave teaching within five years. Teacher salaries and salaries of education support professionals, including higher education faculty, are almost the same today, after adjusting for inflation, as they were in the 1970s. The gap between teacher salaries and the salaries of other college-educated professionals in nonteaching jobs has increased tenfold, from \$1,800 in 1960 to \$18,000 in 2000. Teachers spend about \$1,000 a year out of their own pockets compensating for shortages of supplies and materials. In short, schools are being held accountable for results (usually on high stakes tests such as those required by the so-called "No Child Left Behind" law) when they lack the resources and capacity to do their jobs properly.

This lack of school resources and capacity is a result of the long-term inadequate and inequitable funding of schools. Many states have now conducted adequacy studies either in connection with state supreme court rulings or at the request of state legislatures and advocacy groups. These studies show that, on average, it would take about 25 percent additional investment to achieve a rough standard of adequacy and equity, without even considering teacher salaries. An analysis of 30 years of data from all 50 states shows that adequacy and equity in school funding cannot be achieved when state and local tax structures are shifting responsibility for funding our future onto those least able to pay and when state and local governments keep giving away the store in the name of so-called "economic development." More than 90 percent of school funding comes from state and local sources. If the current trends in tax structures, economic development policies, and funding for schools (TEF) continue, we cannot sustain what we have, let alone create a system that produces a highly skilled, innovative workforce to meet the needs of American business.

The United States has had many reform initiatives aimed at fixing the education system, starting with *A Nation at Risk* (1983) and culminating with the recent report by the Hamilton Project (2007). Unfortunately, many of these initiatives don't even allude to the challenges outlined above in terms of TEF trends. Instead, they propose simplistic, "silver-bullet" solutions like performance pay and privatization. Yet, clearly, performance pay in the business world is not very encouraging. In the schools, as well, we tried performance pay. Remember the "Texas Miracle" in the Houston schools under Rod Paige? It was later found that the Houston student data were manipulated to give performance bonuses. Similarly, all the evidence suggests that privatization of public services exacerbates costs. For example, we have privatized some military support services at cost plus. At the end of the day, does anyone know how many private contractors are in Iraq? How much are they paid compared to soldiers? It appears that not even Congress knows where all the money goes.

Opportunities to Work Together

To be competitive in the new knowledge-based global economy, American businesses need an innovative and highly skilled labor force. America's system of public education is the key to creating such a labor force. With the wealth of 30 years of TEF data for all 50 states, and with new evidence showing that in the new economy investment in public education creates greater economic prosperity for more Americans than tax cuts and subsidies, it is high time for business and education leaders to begin talking to one another. It is time to turn the page and chart a new course that sustains our economic leadership in the world.

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