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**Blocking, Diluting, and Co-Opting Merit Pay**

**Stuart Buck**  
University of Arkansas

**Jay P. Greene**  
University of Arkansas

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By

Stuart Buck

And

Jay P. Greene

University of Arkansas

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## **I. Introduction**

Merit pay for teachers -- in which teachers are given monetary incentives for improved student performance in their own classroom and/or on a school-wide basis -- has some potential to be a positive reform. High quality research on this topic is sparse, but at least some studies show modest benefits to student achievement when teachers are given bonuses on that basis.

But because education reforms must be implemented in a political environment, the potential of merit pay is not reality. Whatever benefits may be produced from merit pay programs, those benefits are very unlikely to be realized because of the same implementation problem that plagues many other reforms. That is, when an education reform has the theoretical potential for success, it will, *for that very reason*, be perceived as threatening to established interests. As a result, those interests will devote their time, resources, and energy to blocking or diluting the reform, rather than acceding to its implementation on a rigorous and widespread basis. Unless an educational reform also addresses the political power of established interests to block or dilute that reform, that reform is destined to be a disappointment.

How has this happened with merit pay? As an initial matter, teacher unions have often been able to block merit pay from being enacted at all (this was the case in Massachusetts, Cincinnati, and elsewhere). If they fail to block a merit pay program from coming into existence, they are often able to ensure that the program is temporary, or to let the program be the first on the chopping block in tight budgetary times.

Even if merit pay is enacted on a statewide basis, such as in Florida, unions are often able to prevent local districts from opting into the program (only a handful of Florida districts participate in merit pay, even though the state program would provide them with free money). Other union political victories involve programs that happen to award more money for graduate degrees than for improving student performance (Denver), or that end up so watered down that they reward an overwhelming majority of teachers (Texas).

All of this leads us to measured skepticism about the merit of merit pay, unless coupled with other reforms such as competition between schools. After all, merit pay boils down to an attempt to recreate a market system within a tightly controlled state monopoly. This is an objective fraught with peril. Even if wise and benevolent state actors manage to get the incentives right at a particular moment in time in a particular place, their actions can always be undone by immediate successors. Those successors may well be more influenced by the powerful special interests that want to block merit pay, loosen the standards, or even to call a system “merit pay” while rewarding behavior that has no relation to actual achievement.

With greater educational competition, however, state bureaucracies, local school boards, and building principals face a sharpened incentive to figure out how to structure their own pay systems so as to extract excellent performance from their employees. If they fail to do so, students may be more likely to leave the state school system altogether, thus diminishing the public schools’ budget. The last thing that any good bureaucrat wants is a decreased budget (which means less power and control).

As a result, competition enhances the possibility that merit pay could reach its full potential, rather than being coopted by interest groups whose goal is to reward whatever it is that they already happen to be doing. Put another way, competition between schools diminishes the political power of interest groups that are dedicated to undermining merit pay.

## **II. Background**

We begin with a brief discussion of the merit pay programs that currently exist in the United States, followed by an assessment of the current scholarly evidence suggesting that merit pay offers at least the promise of success.

### **A. What Programs Currently Exist**

For this section, we started with webpages operated by the U.S. Department of Education<sup>1</sup> and the National Center on Performance Incentives at Vanderbilt University,<sup>2</sup> both of which track various merit pay programs in operation across the country. We then performed additional research on the extent of the identified programs.

Merit pay is currently used in at least 26 states. In most places, however -- even those with putatively state-wide programs -- merit pay usually ends up being limited to a handful of districts or schools. This section will discuss only the most significant programs in existence; space does not permit us to analyze every minor initiative that hands out a few thousand dollars in one school or small district.

#### **NATIONAL PROGRAMS**

##### *The Teacher Incentive Fund:*

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<sup>1</sup> See <http://www.cecr.ed.gov/initiatives/grantees/profiles.cfm>.

<sup>2</sup> See [http://www.performanceincentives.org/statebystate\\_resources/index.asp](http://www.performanceincentives.org/statebystate_resources/index.asp).

The Teacher Incentive Fund provides grants to school districts that have promised to develop merit pay programs “for raising student achievement and for taking positions in high-need schools.” The TIF program was initiated by President Bush in 2006 and received \$200 million in funding from the stimulus bill; President Obama has proposed in his new budget to expand its current \$97.3 million annual funding to \$487.3 million.<sup>3</sup> Under President Obama’s proposed budget, the pay systems “must be based primarily on measures related to student achievement.” As well, the Department of Education will be instructed to favor systems that involve teachers and principals in their design, that use longitudinal data, and that apply merit pay to all of a school’s staff (as opposed to just reading and math teachers).

There are currently 33 TIF grantees listed on the Department of Education’s website, including some small districts and a few major city districts (such as Houston or Denver).<sup>4</sup> These grantees make up the majority of the merit pay programs in existence in the U.S.

#### *The Teacher Advancement Program*

The Teacher Advancement Program is a program that was initiated by the Milken Foundation, and that currently operates in 47 public school districts -- all but 11 of which are in Louisiana, Texas, and South Carolina -- involving over 85,000 students and 7,500 teachers. The Teacher Advancement Program has four key elements: multiple career paths, accountability, professional development, and merit pay. The program recommends that merit pay in participating districts be awarded as follows: 50% based on

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<sup>3</sup> See <http://www2.ed.gov/about/overview/budget/budget10/summary/edlite-section3a.html#tif>.

<sup>4</sup> See <http://www.cecr.ed.gov/initiatives/grantees/profiles.cfm>.

teacher evaluations, 30% based on classroom achievement, and 20% based on school-wide achievement.<sup>5</sup>

#### STATE AND LOCAL PROGRAMS

*Arizona:* Arizona's Career Ladder Program is a payment system that allows teachers to advance in their careers while remaining in the classroom. According to NCPI's webpage, "the program currently operates in 28 of the state's 200+ school districts, covering 31 percent of the state's students and 40 percent of its teachers." Under Arizona state law, the career ladder program must involve "a structure which provides teachers with opportunities for professional career advancement based primarily on improved or advanced teaching skills, evidence of pupil academic progress and higher level instructional responsibilities. Advancement shall not be based on years of teaching experience or the number of educational credits earned. of teaching skills and teacher responsibility, professional growth, and equal teacher pay for equal performance)."<sup>6</sup> Teacher participation seems to be optional; the Arizona Department of Education's website notes that only 70% of eligible teachers participate in the Career Ladder Program.<sup>7</sup>

Arizona's Classroom Site Fund is a mandatory state-wide program that involved a couple of new taxes. Districts must "allocate forty per cent of the monies for teacher compensation increases based on performance and employment related expenses, twenty per cent of the monies for teacher base salary increases and employment related expenses

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<sup>5</sup> See <http://www.tapsystem.org/action/action.taf?page=pbcc>.

<sup>6</sup> See section 15-918-02, [http://www.ade.state.az.us/asd/CareerLadder/Provisions\\_of\\_CL\\_Law\\_and\\_Code.pdf](http://www.ade.state.az.us/asd/CareerLadder/Provisions_of_CL_Law_and_Code.pdf).

<sup>7</sup> See <http://www.ade.state.az.us/asd/CareerLadder/>.

and forty per cent of the monies for maintenance and operation purposes.”<sup>8</sup> In the 2007-08 year, the CSF collected and distributed some \$500 million dollars to Arizona public and charter schools,<sup>9</sup> although that number dropped to \$330 million last year (Gersema 2010).

*Texas:* Texas is famous for three of the largest merit pay programs in the nation. First, the Texas Educator Excellence Grant program began in 2006-07, and was continued for the following two years; it was funded at approximately \$100 million per year. The grants were “available to a targeted group of elementary, middle, high school, all grades, and alternative education campuses who fall in the top half of economically disadvantaged campuses and demonstrate the highest levels of student achievement or comparable improvement, as measured through the state accountability system.”<sup>10</sup> Schools that received grants were required to “use seventy-five percent of the funds to award incentives to classroom teachers. In determining which teachers receive awards, campuses must create an incentive program plan that relies on objective and quantifiable measures for two required criteria: impact on student achievement and collaboration and can include up to two optional criteria: teacher initiative, commitment, personalization, professionalism and campus involvement and teacher assignment to hard to staff or high turnover subject area.” (See previous link). The TEEG program ended after the 2008-09 year.

Second, as of May 2006, the Texas legislature created the District Awards for Teacher Excellence program, which allows extra funding for districts that adopt a merit

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<sup>8</sup> See Ariz. Stat. section 15-977, <http://www.azleg.state.az.us/ars/15/00977.htm>.

<sup>9</sup> See <http://www.ade.az.gov/schoolfinance/FAQs/CSF/FY08DistrSumm.pdf>.

<sup>10</sup> See [http://ritter.tea.state.tx.us/ed\\_init/teeg/index.html](http://ritter.tea.state.tx.us/ed_init/teeg/index.html).

pay system. Qualifying merit pay systems must use at least 60% of the funds for “teachers who positively impact student academic improvement and/or growth,” out of which “50% of the criteria used must be quantifiable” and address student achievement growth.<sup>11</sup> The DATE program “was funded at \$147.5 million for the 2008-09 school year and \$397 has been appropriated for the following two years of the program.”<sup>12</sup>

Third, a merit pay program has existed in Houston since January 2007, and has awarded more than \$113 million in bonuses. Most recently, the Houston school district announced financial awards totaling \$40.4 million on Jan. 27, 2010.<sup>13</sup>

*Florida:* Florida’s “Merit Award Program” is a statewide initiative that provides money to local school districts for purposes of merit pay. According to the Florida Department of Education, “Each district will determine an amount equal to at least 5% and no more than 10% of that district’s average teacher salary to be awarded to all of the top performing personnel in the district, regardless of years of experience.” These not insubstantial monetary awards are supposed to be mainly tied to student performance: “Not less than 60% of the assessment of personnel must be based on the performance of the students assigned to the teacher, students within the sphere of responsibility of the team, or students assigned to the administrator’s school.” The remainder of any award “must be based on a professional practices component consisting of criteria adopted by the school board and administered through an evaluation by the

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<sup>11</sup> See [http://ritter.tea.state.tx.us/ed\\_init/eeg/datex/PlanTool.html](http://ritter.tea.state.tx.us/ed_init/eeg/datex/PlanTool.html).

<sup>12</sup> See <http://www.txeducatorawards.org/about.html>.

<sup>13</sup> See <http://www.houstonisd.org/HISDConnectDS/v/index.jsp?vnextoid=0a46c6a77d076210VgnVCM10000028147fa6RCRD&vnextchannel=f6d4ced1cc65e010VgnVCM10000028147fa6RCRD>.

principal for instructional personnel and by the superintendent or designee for the administrator.”<sup>14</sup>

*New York City:* The Bloomberg administration made headlines in late 2007 by announcing a new pilot program -- the School-Wide Performance Bonus Program -- using private funds to establish merit pay programs at some NYC schools. Specifically, 200 schools were eligible in the first year (2007-08) for a collective \$20 million in bonuses based on school-wide improvement, while 400 schools were eligible in 2008-09. The bonus amounts came to some \$3,000 per teacher on average.

*Iowa:* Iowa passed legislation in 2007 creating funding for a “Pay-for-Performance and Career Ladder Pilot Grants” program. The most recent report from the Iowa Department of Education (2009) noted that three Iowa districts had applied.

#### *Private and Charter Schools*

Goldhaber et al. find that “charter schools are overall significantly more likely than traditional public schools to use merit pay. For instance, after controlling for the degree of union influence and community demographics, charter schools are 11.5 percentage points more likely to use formal merit pay.” (Goldhaber et al. 2008). Podgursky (2006) looks at data from the 1999–2000 Schools and Staffing Surveys, and found (p. 10) that when school administrators were asked whether they used salaries to reward “excellence,” only six percent of traditional public school administrators answered yes, while “the rates for charter (36 percent) and private schools (22 percent) were much higher.”

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<sup>14</sup> See <http://fldoe.org/PerformancePay/pdfs/MeritAwardProgram.pdf>.

## **B. The Scholarly Evidence on Merit Pay**

Podgursky and Springer's 2007 literature review noted that "in contrast to the very mixed findings of studies of teacher characteristics such as certification or teacher education (Hanushek, 2003), the slender incentive literature generally finds positive achievement effects." (p. 563). Specifically, they found five studies with positive results and two with mixed results. They conclude that "literature is extremely diverse in terms of incentive design, population, type of incentive (group vs. individual), strength of study design, and duration of the incentive. Yet in every case, the evidence suggests that teachers responded to the incentives." (p. 567).

Karthik Muralidharan and Venkatesh Sundararaman (2009) recently presented results from a randomized trial of merit pay in a representative sample of 500 rural schools in India -- the first randomized trial of this kind. The program provided up to 3% of annual salary as a bonus based on student test scores. After the program had been in place for two years, students in the merit pay schools "performed significantly better than those in control schools by 0.28 and 0.16 standard deviations in math and language tests respectively," and even "performed better on subjects for which there were no incentives, suggesting positive spillovers." Whether these results are generalizable outside of impoverished Indian schools is another matter.

Glewwe, Ilias and Kremer (2003) reported on a randomized trial involving 50 schools in Kenya; teachers were given bonuses of up to 43% of a month's salary based on school-wide test scores. They found a range of point estimates indicating that "students in treatment schools were more likely to take exams, and scored higher, at least on some exams." They theorize, however, that because they could not detect any differences in

teacher attendance, homework assignment, or pedagogy, the small differences in test prep sessions may have accounted for the test improvement. They further note, “Following the end of the program, the test score difference between students who had attended treatment and comparison schools disappeared, consistent with a model in which teachers increased signaling effort but did not significantly increase effort to promote long-run learning.” (pp. 31-32). That said, the program was announced as temporary, only lasting two years, which raises the possibility of longer-term effects from a longer-term program.

Ritter et al. (2008) analyzed a small Little Rock merit pay program that existed for three years (one school in 2004-05, two schools in 2005-06, and five schools in 2006-07). In a regression comparing those schools to other Little Rock schools (controlling for numerous other variables), Ritter et al. found that “performance pay increased student proficiency by 0.16 standard deviations in math, 0.15 standard deviations in reading, and 0.22 standard deviation units in language.” (p. A-11).

### **III. Merit Pay Programs Are Easily Blocked or Diluted**

Despite merit pay’s promise of moderate success in reforming teacher incentives and teacher practices -- or rather, *because* of merit pay’s promise -- it often ends up being blocked, coopted, or diluted by established interests.

Thus, merit pay is actually rather rare. As an initial matter, true merit pay would involve more than merely the option for good teachers to get a bonus while bad teachers get to keep their entire original salary. Instead, true merit pay would allow incompetent teachers to lose salary, including, for the worst teachers, losing their entire salary – that is, losing their jobs. Needless to say, tenure rules in the vast majority of districts prevent the merely incompetent teacher from losing his or her job.

Even considering those merit pay plans that are restricted to bonuses for good teachers, merit pay is still relatively rare. By a generous estimate,<sup>15</sup> merit pay plans of any sort are currently being funded and implemented in a mere 528 districts nationwide, out of over 15,200 districts. This amounts to a mere 3.5 percent of districts.

**A. Merit Pay Plans Often Are Blocked or Repealed**

Evidence that merit pay programs are blocked can be hard to come by. For instance, it could be that merit pay would have been successfully adopted in any number of the 96.5% of U.S. districts that do not have merit pay currently, but special interest groups were powerful enough that no one even bothered proposing such a program in the first place.

Still, there are several telling examples. For one, Mitt Romney proposed merit pay in Massachusetts back in 2005-06, as part of an education budget that included tens of millions in new spending. (Janosfky 2005). That proposal went down to defeat; as a local newspaper noted, “the Massachusetts Teachers Association and United Teachers of Lowell opposed the idea. Catherine Boudreau, president of the MTA, called teacher bonuses ‘inequitable and divisive.’” (Lowell Sun 2006).

For another example, Philadelphia tried to institute a pilot merit pay program in 2000, but later ditched the program, “calling it too expensive, too difficult to administer, and a failure at giving teachers useful feedback.” (Snyder 2003). Then, in 2006, Philadelphia got a \$20.5 million grant from the U.S. government to develop a merit pay

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<sup>15</sup> For example, we count all of the districts in Utah, which is listed on the website of the National Center for Performance Incentives as having a statewide merit pay program, even though a Utah newspaper currently reports, “Several schools are part of a pilot program this year, in which they create a performance pay plan. The schools will implement their plans next school year. After the two-year pilot, State Office of Education officials aim to create a statewide proposal.” See Amy K. Stewart, “Utah Legislature: Teacher merit pay resolution raises new questions,” *Deseret News*, 22 Feb. 2010.

program. Said the local newspaper, “At the time, the federal grant was announced with much fanfare - the union would be the district’s partner, officials said, ensuring the plan would succeed where others failed. But the deal fell apart.” (Graham 2009). The local union abandoned the program in the face of a “surprise \$180 million budget deficit,” and the district gave the money to charter schools instead. (Graham 2009).

Yet another example comes from Cincinnati. The proposed merit pay plan there was overwhelmingly voted down by teachers (1892 to 73) even though it did not base bonuses on student test scores. As *EdWeek* noted, the plan “was based on an extensive evaluation system, which determines whether teachers advance in five career categories . . . . The evaluations entail multiple classroom observations by fellow teachers and administrators and portfolios that include logs of parent contacts, lesson plans, student work, and more.” (Keller 2002). A former associate superintendent of the Cincinnati schools later blamed the proposal’s failure on the fact that it “would have applied to nearly all teachers, rather than allowing veterans the choice of opting into the new system.” (Sawchuk 2009).

Recently in Alabama, the state’s “Race to the Top” application originally proposed merit pay and a “new salary schedule that would give more money to math, science and special-education teachers,” but that portion of the application was deleted “after Alabama Education Association leader Paul Hubbert wrote state Superintendent Joe Morton a letter on Jan. 5 opposing them.” (Philips 2010).

As well, if special interests fail to block a merit pay program, they are often able to make it temporary from the get-go. The Little Rock, Arkansas performance pay program lasted only three years, and was not renewed by the local school board despite

evidence of its success (Ritter et al. 2008). Similarly, the Alaska School Performance Incentive Program was canceled after three years.<sup>16</sup>

Special interests are also able to repeal merit pay based on putative budgetary constraints. For instance, the state of North Carolina suspended incentive awards to high-performing schools in 2008-09 due to budget problems.<sup>17</sup> Winston-Salem/Forsyth County, NC also suspended its bonus program due to budget difficulties.<sup>18</sup> This happens even though a merit pay program could be implemented without any additional budget (*i.e.*, just by restructuring whatever is currently spent on instructional salaries).

### **B. Participation in Merit Pay Programs Is Often Blocked**

Just as unions often seek to block or repeal merit pay program, they are similarly successful at preventing local districts from participating in statewide programs, as the experience in Florida, Iowa, and Texas shows.

Take Florida's Merit Award Program: although this is putatively a state-wide program, in practice, few districts in Florida participate. As the Associated Press recently noted, "Most of Florida's 67 school districts and their local teachers unions have declined to participate in that program, even though it's meant turning down state money for the bonuses. *Only eight districts this year* are participating in the program that's budgeted for \$20 million." (Kaczor 2009). In other words, the political forces opposing merit pay are strong enough that they are able to prevent 88% of the districts in Florida from receiving free extra money to hand out to teachers.

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<sup>16</sup> See <http://www.eed.state.ak.us/spip/>.

<sup>17</sup> See <http://www.ncpublicschools.org/docs/accountability/reporting/abc/2008-09/execsumm.pdf>.

<sup>18</sup> See <http://www.wsfcs.k12.nc.us/education/components/scrapbook/default.php?sectiondetailid=32665>.

The same is true in Iowa. A statewide “Career Ladder and Pay-for-Performance” grant program was passed in 2007, but only 3 Iowa districts – out of 360 districts – even bothered to apply. (Iowa Department of Education 2009).

Similarly, only 20% of Texas districts opted into the “District Awards for Teacher Excellence” program this school year (Stutz 2009). As the Dallas Morning News reported, “Teacher groups remain skeptical of the new plan, particularly its heavy reliance on student test scores.” (Stutz 2009). A representative of the Association of Texas Educators said, “The problem is that these tests aren’t designed for this purpose. You can’t take a snapshot of students’ performance on one day and extrapolate from that whether their teacher is highly effective over the entire school year.” (Stutz 2009). As a result of this political opposition, the vast majority of school districts even in conservative Texas are turning down extra money from the state.

### **C. Merit Pay Plans Are Often Diluted or Coopted**

Dilution or cooptation occurs when a merit pay plan is announced, but in practice it ends up rewarding teachers mostly or entirely for inputs (e.g., professional development, graduate degrees, national certification) rather than for outputs (test scores, graduation rates, or even supervisor assessments).

One example of dilution and cooptation is the Arizona Classroom Site Fund. As noted above, the Arizona Classroom Site Fund provides hundreds of millions of dollars to Arizona school districts, supposedly for the purpose of funding merit pay at the district level. But a Feb. 2010 report from the state auditor found that “despite an average annual increase of about \$300 million in Classroom Site Fund (CSF) monies, which are largely restricted for classroom purposes, the classroom dollar percentage is lower than it was

prior to receipt of the first CSF monies in fiscal year 2002.” (p. i). This low percentage of district dollars spent at the classroom level “indicates that many districts are using their CSF monies to shift their non-CSF monies away from the classroom, which is a violation of state law.” (p. i).

In addition, the auditor found that many Arizona school districts have been skirting their responsibility to create an actual merit pay program. Out of 222 districts receiving CSF funding, the auditor could identify only **29** “with strong performance pay plans that did a good job of linking teacher performance pay to student achievement.” (p. iii). By contrast, there were “10 weak plans that had no links to student achievement,” as well as “many other plans that did not necessarily link student achievement to teacher performance, contained goals that allowed teachers to earn performance pay for responsibilities that are a regular part of their jobs, or simply did not require performance above and beyond already expected levels.” (p. iii).

The report noted that “allowing districts the freedom to determine performance pay goals can help gain district and teacher buy-in,” but that such freedom “has also led to inconsistent performance pay plans and to situations in which teachers receive similar performance pay for significantly different levels of effort and related performance results.” (p. iii).

One example in particular deserves to be highlighted from the Arizona auditor’s report:

One district awarded performance pay to eligible employees if freshman students’ algebra test scores increased by at least 10 percent between a pre and post-test. The actual increase in test scores was almost 90 percent. Since the pre-test is given to freshman students who have never been exposed to algebra and the post-test is given to

them after receiving a full year of algebra instruction, it should be expected that scores would increase significantly more than 10 percent.

(Arizona Auditor Report, p. 22). In other words, algebra teachers were being rewarded merely for getting students to learn 10% more about algebra than they knew before studying that subject at all. This is not a high hurdle to clear.

So far, Arizona school officials seem unapologetic about their behavior. As a local newspaper noted, a lobbyist for the Arizona Association of School Business Officials rejected “auditors’ accusations that spending voter-approved dollars meant for performance pay on regular-teacher pay instead is illegal.” On what basis could he make this claim? “The money is still going for teacher salaries.” (Gersema 2010).

Thus, as the Arizona example shows, it is politically difficult to force local schools and districts to do something that they don’t want to do. Even when a state creates a state-wide merit pay program and legally bars spending the money on anything else, local school districts may still end up spending the funding on regular salaries unconnected to merit pay or on so-called “merit pay” programs with absurdly low standards for what constitutes “merit.”

Denver’s ProComp – or “Professional Compensation for Teachers” – program has been widely heralded as a political and policy success. Then-Senator Barack Obama said, “Cities like Denver have already proven that by working with teachers, this can work, that we can find new ways to increase pay that are developed with teachers, not imposed on them and not just based on an arbitrary test score.” (Davis and Miller 2007). Last year, when asked about performance pay programs, Obama’s press secretary praised “one

instance in the Denver area, where the school system and teachers worked together to create a plan that was ultimately passed as part of a referendum.” (New Republic 2009).

But the Denver ProComp program may be less than meets the eye. For one thing, it exempts teachers hired before Jan. 1, 2006, from having to join, which means that the vast majority of teachers whose pay depends on seniority rather than merit are able to keep their old pay structure in place. And if older teachers do enter the ProComp program (as per their own choice), they then keep their old base salary and the ProComp program merely offers them a chance for higher bonuses on top of that old salary.<sup>19</sup>

For another thing, the ProComp program rewards the old definition of “merit” – the earning of a graduate degree – more immediately and to a greater extent than anything that actually improves student achievement. If you examine the “Incentive Chart” for the ProComp system,<sup>20</sup> it turns out that the largest monetary award in the Denver ProComp system is for earning a graduate degree: a \$3,300 permanent salary increase plus a tuition or student loan subsidy of \$1,000 per year for up to 4 years. By comparison, teachers receive a one-time award -- but not a bump up in base salary -- of up to \$2,403.26 if their students exceed “district expectations” for student growth.<sup>21</sup> In other words, for two years’ effort, a teacher could earn a graduate degree and then make \$3,300 more per year for the next 30 years, or she could focus on raising student achievement and possibly earn about \$4,800 total.

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<sup>19</sup> See Section 6 of the contract, available at <http://static.dpsk12.org/gems/newprocomp/ProCompAgrAmd0908FINALNOCHANGESupdatTable2.pdf>.

<sup>20</sup> Available at <http://denverprocomp.dpsk12.org/about/>.

<sup>21</sup> If Denver teachers meet *two* of their student growth objectives in a given year, they can receive a \$376 bump in base pay.

Moreover, as Paul Teske, a principal evaluator of the ProComp program, noted, bad teachers face no penalty under the ProComp or similar merit pay programs: “I guess your salary stays low, and maybe that sends the message that you should look at another career. But ProComp doesn’t directly address that.” (Paulson and Khadaroo 2009).

The TIF program in Charlotte-Mecklenburg (NC) includes substantial bonuses for professional development, working at hard-to-staff schools or in hard-to-staff subjects, and for taking on leadership roles. To the extent it involves student achievement, it bases awards on “student learning objectives” as “created by individual teachers, with the approval of site-based administrators”; these objectives “will be measured by a combination of existing assessment instruments, and teacher designed tools,” as well as by state standardized tests.<sup>22</sup> (The superintendent of Charlotte-Mecklenburg schools recently announced a plan to bring performance pay to the entire district.)<sup>23</sup>

Perhaps it is desirable to have teachers receive more professional development, work in hard-to-staff schools or subjects, and assume leadership roles, but these are inputs, not student outcomes. The bulk of the Charlotte-Mecklenburg TIF program, like many such programs, are MPINO -- merit pay in name only. By developing programs that masquerade as merit pay but are primarily variants of the status quo model of paying for credentials and other inputs, established interests are effectively co-opting the merit pay movement.

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<sup>22</sup> See <http://www.cecr.ed.gov/initiatives/profiles/pdfs/CommunityTrainingandAssistanceCenter.pdf>.

<sup>23</sup> See <http://www.cms.k12.nc.us/cmsdepartments/accountability/payforperformance/Pages/default.aspx>.

This problem is also exemplified by the Arlington County, Virginia school system, which started a merit pay program in 2007 that allowed teachers to move up on the pay scale via national board certification, or “by submitting a portfolio of work demonstrating professional development.” As for student achievement, “Arlington officials stressed that evaluations would not hinge on test scores, although teachers could submit them as evidence of success,” because “relying on test scores would fail to capture the complexity of teaching and discourage teachers from working with challenging students.” (Democrat-Gazette 2007).

In addition to co-opting merit pay by applying that title to pay-for-credential programs, some locales have diluted the concept by making the bonuses to teachers small, setting the bar for receiving the bonuses low, and thereby converting merit pay into something approximating an across-the board-pay raise. In Texas, for example, Lori Taylor speculated that “one possible cause of the program’s failure was that bonuses were relatively small and were given to most teachers at each school – about 70 percent – so that the incentive for individual teachers to push for higher scores was ‘relatively weak.’ In addition, campuses that qualified already had to be higher performers, so it was difficult to register much improvement.” (Stutz 2009). Moreover, the bonuses paid were smaller than designed: “While the Texas Education Agency recommended a minimum bonus of \$3,000 and a maximum bonus of \$10,000 for top teachers, school districts paid an average of \$1,982 the first year of the program and \$2,094 the second. That indicates school districts decided to spread the money around rather than give it to a smaller, select group of teachers.” (Stutz 2009). The same seems to be happening in Houston. As the school district’s webpage notes, “in all, 15,688 HISD

employees received performance pay [in 2010], ranging from \$25 to \$15,530. That's 88 percent of eligible HISD employees."<sup>24</sup> Unsurprisingly, a study of the Houston program that had 18 point estimates of the program's success -- using a regression discontinuity design looking at teachers who just missed the quartile cutoff for receiving an award -- found only one estimate, from one year in one subject, that was statistically significant and positive. (White and Leandro 2009, p. 6).

Similarly, the New York City merit pay pilot program may have been undermined by its structure. In a key factor that enabled the plan to draw union support, committees composed of a principal, a person of the principal's choosing, and two union representatives were allowed to decide how the bonuses should be distributed at any given school.<sup>25</sup>

Importantly, the NYC Department of Education randomly assigned eligible schools to treatment or control groups. This has enabled scholars to conduct rigorous evaluations, of which the early results are not promising. At the AEFA conference this year, two papers were presented evaluating the merit pay program, both of which found that the program has no significant effects on academic achievement thus far. The researchers theorized that the structure of the merit pay program -- in which awards were made on a school-wide basis and were determined in part by union representatives -- made it unlikely that the program would have any significant impact on teacher behavior.

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<sup>24</sup> See <http://www.houstonisd.org/HISDConnectDS/v/index.jsp?vnextoid=0a46c6a77d076210VgnVCM10000028147fa6RCRD&vnextchannel=f6d4ced1cc65e010VgnVCM10000028147fa6RCRD>.

<sup>25</sup> See <http://cityroom.blogs.nytimes.com/2007/10/17/mayor-announces-plan-for-teacher-merit-pay/>.

As could be expected, union representatives erred on the side of handing out monetary awards to everyone, which is a situation in which free-riding can easily occur.

## **CONCLUSION**

The prospects for merit pay are not promising despite both theoretical and empirical reasons for expecting that the programs would produce positive results for students. The problem is that public schools are not primarily educational institutions where policies are organized around maximizing student achievement. Instead, public school systems have to be understood as political organizations organized around the interests of their employees, their union representatives, and affiliated politicians and other interest groups.

Viewed in that light, public school systems would have relatively little interest in authentic merit pay programs regardless of their promise for students. Differentiating teacher pay by authentic measures of merit would divide the united political front that enhances the power of these established interests. If some teachers could earn improvements in their wages and working conditions from their own efforts-- by demonstrating merit -- rather than the efforts of their organized representatives or affiliated politicians, then more effective teachers might see little reason for contributing to support the unions financially or politically. Less effective teachers would also have interests that were at odds with more effective teachers if serious merit pay programs were adopted. In short, the single salary schedule by which almost all public school teachers are paid -- which pays primarily for inputs, not merit -- is essential to the financial and political power of established interests. Any attempt to deviate

significantly from the single salary schedule is very likely to be blocked, diluted, or co-opted unless the political power of established interests is significantly reduced.

One way to diminish the power of established interests and permit the effective adoption and implementation of merit pay is to simultaneously expand choice and competition in education and adopt merit pay programs. If students choose their school, those schools have incentives to adopt and implement policies and practices that will improve their quality and attract students as well as the resources they generate. If merit pay systems help attract and motivate effective teachers, schools in a more competitive environment will have incentives to adopt those systems. And they are more likely to design and maintain those merit pay systems in a sensible way, since their revenue depends on it.

If reforms, like merit pay, are simply imposed on schools by the district, state, or national government, they have little incentive to cooperate. For the most part, the revenue and jobs in public schools are unrelated to whether they adopt effective reforms or not and whether they implement those reforms well or not. As long as individual decision-makers in schools experience little or no consequence from making decisions that enhance student achievement, we should not expect that their decisions will be primarily guided by student achievement. And if a policy or practice is at odds with the interests of educational decision-makers, we would especially not expect them to embrace it even if it enhances student achievement.

Attaching continued employment and level of compensation to job performance is something that frequently occurs among private enterprises in competitive markets. No central authority needs to impose performance pay on companies against their will. The

difficulty with attempting merit pay in education is that it consists of imposing a market-based practice in a non-market environment. None of the forces that cause organizations to seek effective merit pay systems, as well as maintain and alter them effectively over time, exist in public education. Established interests will forcefully resist and undermine merit pay, making its success doubtful.

Imposing merit pay on an unwilling education system is like trying to get kids to eat their vegetables when the kids are 25 year-olds who are stronger than their parents. No matter how nutritious they may be, powerful adults who don't want to eat green beans can usually keep them off their plates and can almost always keep them out of their mouths.

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