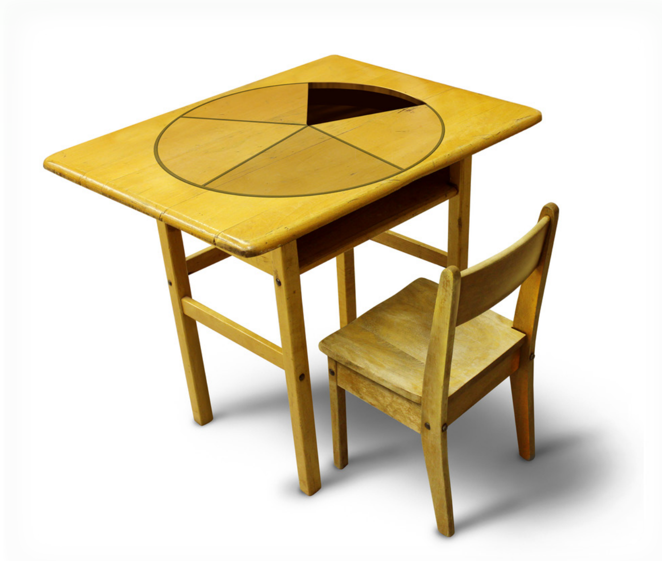
NEPC Review: Financial Crisis Looming for K-12 Schools? Flexibility Needed, Not Bailouts (Heritage Foundation, April 2020)



Reviewed by:

Jack Schneider
University of Massachusetts Lowell

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National Education Policy Center

School of Education, University of Colorado Boulder
Boulder, CO 80309-0249
(802) 383-0058
nepc.colorado.edu

Acknowledgements

NEPC Staff

Kevin Welner
Project Director

William Mathis
Managing Director

Alex Molnar
Publications Director

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Executive Summary

Financial Crisis Looming for K-12 Schools? argues that special interest groups are pushing for excessive federal relief. Such spending, this Heritage Foundation report suggests, will come at the immediate expense of priorities like national defense. It recommends that instead of increasing spending, policy leaders should renegotiate teacher contracts, trim administrative "bloat," and give schools more discretion over how to spend their reduced budgets. But the report's findings and recommendations are poorly grounded, and its selective use of data presents a misleading picture of the school funding landscape. The report frames educational expenditures as steadily rising over the past two decades—the product of the "unreasonable demands" made by teachers' unions. However, spending on public education rose only moderately between 2008-2009 and 2016-2017 (the most recent available federal data). During this period, current expenditures per pupil rose from $12,435 to $12,794—an average annual increase of under 0.4%. Moreover, the average teacher salary since 1999-2000 has declined in constant dollars by 1.6%, suggesting that teacher interests are not driving these modest spending increases. Further, the core argument against federal spending does not engage with the research demonstrating that short-term federal relief for K-12 public education is likely to prevent job losses and stabilize the economy. For these and other reasons, this report does not represent an evidence-based or research-informed contribution to the policy discussion.

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I. Introduction

School funding is an important and often contested issue in ordinary financial times. Now, as states face pandemic-related budget shortfalls, the public will face even more difficult questions about how to pay for K-12 education, particularly in light of the fact that so many Americans are employed through the schools. As was the case during the Great Recession a decade ago, the federal government has earmarked stimulus funds for K-12 schools. To date, however, only $13.5 billion of the $2 trillion Coronavirus Air, Relief, and Economic Security (CARES) package has been allocated for public education. That's less than one percent, and is significantly less than was provided in the 2009 American Recovery and Reinvestment Act.

In *Financial Crisis Looming for K-12 Schools? Flexibility Needed, Not Bailouts*, Jonathan Butcher of the Heritage Foundation argues that calls for additional federal funding are the predictable work of "special-interest lobbyists."[1] The report maintains that spending on public education has increased massively and consistently over the past two decades, driven largely by teachers' unions. As it concludes, "special interests' new plan for more federal spending for K-12 schools should be considered alongside their record of making unfeasible requests" (p. 4).

Rather than provide additional funds to public schools, the report recommends action in three other areas: renegotiating union contracts, increasing school spending flexibility, and cutting administrative positions. Such reforms are longstanding aims among conservative groups like the Heritage Foundation, which have made the case against teachers unions and a "bloated education bureaucracy" many times before.[2]

II. Findings and Conclusions of the Report

The report offers two main findings, which serve as the basis for three recommendations about how policy leaders should respond to the looming downturn in state finances.

Finding 1: State funding for K-12 public education, which declined moderately overall during the Great Recession, has otherwise increased consistently since 1999-2000.

Finding 2: Increases in state funding for K-12 public education are the result of special interest lobbying by teachers' unions, school board associations, and "other industry associations" (p. 1). Special interest groups, the report warns, are pushing for federal relief that would "more than triple Washington's current outlays for local schools" (p. 2).

Recommendation 1: Renegotiate union contracts
The COVID-19 pandemic will require a shift to online learning, as well as modifications to the school calendar and the school day. Teachers' unions, the report argues, should not be allowed to impede such changes or to make new spending demands. Moreover, it suggests that unions be held responsible for any contract-related delays in instruction.

Recommendation 2: Increase spending flexibility
Federal financial relief has offered increased spending flexibility to schools (e.g., carrying unused Title I funds). Lawmakers at the federal and state level, the report recommends, "should allow such flexible spending to continue and give schools more discretion to devote resources to areas of need" (p. 5).

Recommendation 3: Reduce administrative bloat
As the report suggests, budget shortfalls should be met not with increased funding, but rather with cuts to overhead. Cutting the number of school administrators, specifically, would reduce spending on salaries and pensions. Extending this logic, the report recommends replacing all employee pensions with defined contribution plans.

III. Report's Rationale for Its Findings and Conclusions

The rationale underlying this report's recommendations is that no person or group can be immune to economic fluctuations—all individuals and industries should respond to reductions in revenue with cuts to spending. Additionally, the report rests on the assumption that all increases in school funding should be treated as a matter of concern.

Such a rationale is problematic, as it neglects the immediate role that public education jobs play in the U.S. economy, as well as the longer-term role of an educated citizenry and workforce. Moreover, the discussion of rising per-pupil expenditures is characterized by a selective reading of data and fails to consider the research on school finance.

IV. Report's Use of Research Literature

Generally, the report does not engage with the research literature on school finance—either in general or in the specific context of economic recession.

In several cases, the report relies chiefly on anecdotal evidence rather than research. This is particularly true in the section "K-12 Special Interests' Reputation for Unreasonable Demands," which cites popular media accounts to substantiate general claims about "teacher raises and other union demands" (p. 4). Here, the report fails to include data or research on teacher salaries and collective bargaining. According to the National Center for Education Statistics, average teacher salary declined between 1999-2000 and 2016-2017. Using constant 2016-2017 dollars, teachers earned an average of $59,924 in 1999-2000. Nearly two decades later, they earned an average of $58,950—a decrease of 1.6%.[3] This is not compelling evidence of a powerful lobby extracting unreasonable concessions.

The report additionally argues that "teachers' unions and their allies push for taxpayer spending without regard to other areas of state and local budgets and without concern for the effect on future generations of taxpayers" (p. 4). A more careful engagement with data and research, however, paints a different picture. According to the Pew Charitable Trusts, average state tax revenue in 2019—prior to the outbreak of COVID-19—was up 17.1% since before the Great Recession. And in inflation-adjusted dollars, all but six states collected more in tax revenue than at their peak prior to the Great Recession.[4] If revenue is up and teacher salaries are down, other budget areas would appear to be doing relatively well.

The report relies chiefly on anecdotal evidence rather than research.

The report also fails to address the literature on funding adequacy. Despite arguing against more spending, it fails to engage with a significant body of research that addresses the question of what spending in K-12 public schools should be. Extensive work on the topic has been conducted by scholars like Bruce Baker and C. Kirabo Jackson.[5] And, as demonstrated by much of this scholarship, increases in school spending may be a rational and evidence-based response to the needs of students—particularly those from historically marginalized backgrounds. As a recent article from the *American Economic Journal: Applied Economics* finds, adequate school funding in low-income school districts produces significant increases in student achievement.[6]

Scholars have also examined the use of federal borrowing during economic downturns, looking particularly at the role of public education. As an article in the *Cambridge Journal of Economics* found, the 2009 American Recovery and Reinvestment Act (ARRA) channeled over $100 billion to K-12 and higher education. Spending on education during the Great Recession, the author concludes, contributed "significantly to bracing the floor of aggregate demand in the US economy that would have otherwise collapsed."[7] Such research seems very relevant but is not discussed in the report. Instead, the report quotes a *Wall Street Journal* correspondent who argues, in conflict with this empirical research, that "Borrowing now amounts to a transfer of economic activity from the future to the present" (p. 6).

V. Review of the Report's Methods

The report uses data from the National Center for Education Statistics, which are reported on and interpreted in a fairly selective manner. Additionally, the report relies on anecdotal evidence to bolster the Heritage Foundation's established positions.

VI. Review of the Validity of the Findings and Conclusions

The report concludes that expenditures on public education have increased steadily over time, with the exception of the Great Recession. Additionally, it asserts that such increases are the product of special interest lobbying from teachers. This conclusion is based on a selective reading of the data.

It is true that spending has increased fairly consistently on a year-to-year basis. Yet it is also true that spending has remained virtually flat over the past decade. Between 2008-2009—before the Great Recession impacted school budgets—and 2016-2017, current expenditures per pupil rose 2.9%, from $12,435 to $12,794 (an average of less than 0.4% per year).[8] Expenditures did rise steadily after 2012-2013. By that point, however, current per-pupil expenditures in the U.S. had declined 7%, to an average of $11,552. Much of the increase in school funding after that point simply offset losses due to the recession.

The report also notes an increase in expenditures over the past two decades. In doing so, however, it fails to examine where, specifically, public education budgets have expanded. Nearly $100 billion of the increase in spending identified by the report has been due to the increase in the cost of employee benefits, the largest driver of which appears to be health insurance—something driven by larger forces, generally outside the control of school districts.[9] In fiscal year 2001, the aggregate cost of employee benefits was $58 billion (in constant dollars). In fiscal year 2016, those costs had risen to $137 billion. According to the National Center for Education Statistics, between 2000-2001 and 2015-2016, the proportion of current expenditures for employee benefits increased from 17% to 23%. Meanwhile, the proportion of current expenditures for staff *salaries* decreased, from 64% in 2000-2001 to 57% in 2015-2016.[10] In short, although there may be important reforms needed to address rising costs, they do not appear to be those identified by the report.

Additionally, the report presents several figures out of context. It claims, for instance, that "Washington cannot increase K-12 spending and maintain spending in other critical areas such as defense without budget adjustments" (p. 2). Yet annual federal spending on K-12 education, as the report notes, is roughly $60 billion, less than 1/12 the amount of defense expenditures.[11] Moreover, federal stimulus funds for education—like those delivered in 2009 via ARRA—would be a one-time cost rather than a recurring annual expense.

Finally, because the report is not grounded in research, it offers little credible guidance about the impact of federal K-12 spending on the economy. During the Great Recession, the federal government provided an emergency infusion of $80 billion for K-12 schools, which peer-reviewed scholarship finds to have prevented job losses and stabilized the economy.[12] Although spending flexibility and renegotiation of union contracts may be important moving forward, at least in light of the present global pandemic, there is little evidence suggesting that federal support for K-12 education will "harm future generations" (p. 2).

VII. Usefulness of the Report for Guidance of Policy and Practice

This report does not represent an evidence-based or research-informed contribution to the policy discussion. Determining the appropriate amount of emergency federal funding for K-12 schools is a critical and challenging task. To do so, policymakers will need to consult the scholarship on school finance, which indicates that public education is insufficiently funded, as well as research examining the economic impact of federal stimulus spending. This report does neither, and its selective use of data presents a misleading picture of the school funding landscape.

Notes and References

1 Butcher, J. (2020). *Financial crisis looming for K-12 schools? Flexibility needed, not bailouts*. Washington, DC: Heritage Foundation. Retrieved April 20, 2020, from http://report.heritage.org/ib5061

2 See, for instance, Burke, L. (2010). *Creating a crisis: Spending increase to fund bloated education bureaucracy*. Washington, DC: Heritage Foundation. Retrieved April 20, 2020, from https://www.heritage.org/education/report/creating-crisis-spending-increase-fund-bloated-education-bureaucracy

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7 Pollin, R. (2012). U.S. government deficits and debt amid the great recession: What the evidence shows. *Cambridge Journal of Economics,36*, 174. Retrieved April 22, 2020, from https://academic.oup.com/cje/article-abstract/36/1/161/1719181

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Note: Expenditures are presented in constant 2018-19 dollars. Current spending is distinct from total spending because it does not include capital outlay for construction or interest on school debt. Together, these total roughly $1,500 per pupil, and do not contribute toward the daily operation of schools.

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11 U.S. Department of Defense. (2020, February 10). Press Release: *DOD releases fiscal year 2021 budget*

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