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### School Spending Matters!

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# *It's Elementary*

A Monthly Column by EFAP Director John Yinger  
August 2014

## **School Spending Matters!**

An important study by Jackson, Johnson, and Persico provides powerful new evidence that school spending matters.<sup>1</sup> This study is directly relevant to debates about education policy in New York State.

Using national data for the U.S. over a long period of time (1967-2010), these scholars show that school finance reforms “have been instrumental in equalizing school spending between low- and high-income districts.” Moreover, they find

that for children from poor families, increasing per-pupil spending by 20 percent for a child’s entire K-12 schooling career increases high school completion by 22.9 percentage points, increases the overall number of years of education by 0.928, increases adult earnings by about 24.6 percent, increases annual family income by 52.2 percent, and reduces the incidence of adult poverty by 19.7 percentage points.

They also find “no discernable effects of increased school spending on children from non-poor families.”

This is a high-quality study. The data set is appropriate and impressive and the methodology is sound. The authors conduct numerous checks and find that the results hold up very well.

The estimated effects are not only statistically significant but also large. As the authors put it, a 20 percent increase in spending on poor children for their entire K-12 career would “eliminate between two-thirds and all of the gaps in these adult outcomes between those raised in poor families and those raised in non-poor families.”

The approach in this study is not, of course, the only way to show that school spending matters. In my last column, I reported on some research about the behavioral implications of New York’s School Tax Relief Program. As part of that research, my colleagues and I examined the relationship between student performance and school spending in New York State using data from 1999 to 2011. We found a highly significant relationship between spending and performance.

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<sup>1</sup> C. Kirabo Jackson, Rucker Johnson, and Claudia Persico, “The Effect of School Finance Reforms on the Distribution of Spending, Academic Achievement, and Adult Outcomes,” National Bureau of Economic Research Working Paper 20118, May 2014.

Our measure of performance for each district is an index that combines the shares of students reaching the state's proficiency standards on math and English exams in the fourth and eighth grades, the share of students receiving a Regents (= advanced) diploma, and the graduation rate. We find that a one percent increase in spending per pupil results in a 1.88 percent increase in this performance measure. Thus, a 20 percent increase in spending per pupil would boost student performance by  $(20)(1.88) = 37.74$  percent.

In my April 2014 column, I showed how eighth-grade test score performance in New York in 2013 varies with student poverty. On average, for example, school districts in which 75 percent of the students are from poor families have a proficiency rate of 26.45 on the state English test. Increasing this rate by 37.74 percent, the approximate result of 20 percent more spending, would result in a proficiency rate of  $26.45(1 + 0.3774) = 36.43$  percent, which is the rate currently achieved in districts with 17 percent poverty. A similar result holds for proficiency in mathematics.

In 2013, 5 percent of the districts in New York State (outside of NYC) had poverty rates of 75 percent or above and 23 percent had poverty rates of 17 percent or below. So this example indicates that a 20 percent increase in spending could move districts in the bottom five percent of student performance up into the top quarter of districts. This large change is similar to the type of change predicted by Jackson, Johnson, and Persico.

Unfortunately, however, New York State has not been moving toward increased funding for high-poverty districts. As discussed in my November 2013 column, the State defaulted on its 2007 promise to implement a fairer formula with higher compensation for districts with high poverty rates. Moreover, it cut the aid to high-poverty districts much more than it cut the aid to rich districts. These cuts have not been restored. In addition, as documented by Professor Bruce Baker, in recent years the State has lowered the base funding level in its foundation aid formula while raising the standards districts are expected to meet.<sup>2</sup>

If policy makers in New York State want to close the student performance gap between low-poverty and high-poverty school districts, they must implement a more equalizing state aid formula, such as the one promised in 2007. Many politicians like to claim that New York already spends a huge amount on education aid and still has average performance levels below other states. More spending would not help, they claim. These politicians miss the point. The problem in New York is the distribution of state aid, not the amount. A redistribution of state aid to the poor districts would lower this performance gap with no additional spending.

Once again, I call on education policy makers in New York to implement a fair state aid formula—one that recognizes the high cost of educating students from poor families—and to fund a unit for evaluating educational reform programs in the New York State Education Department. It is time to stop using the refuted claim that money does not matter as an excuse for keeping New York's current ineffective approach to education finance.

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<sup>2</sup> Bruce Baker, "Friday Finance 101: NY State's Formula for Failure," School Finance 101 Column, Available at: <http://schoolfinance101.wordpress.com/2014/02/07/friday-finance-101-ny-states-formula-for-failure/>