When the economy’s bubble burst and tax receipts began to plunge, many a school district found itself bleeding red ink. Even districts that seemed healthy discovered gaping holes in their budgets—holes that antiquated accounting systems and poor financial management helped to mask.

Meanwhile, a movement to decentralize budgeting decisions to the school level has taken hold in a number of districts including Edmonton, Houston, and Seattle. Coupled with school choice, decentralization promises to encourage innovation while reducing the need for large, expensive central-office staffs. Here too, however, even reform-minded districts find it difficult to furlough employees or to redistribute resources.

In the following pages, political scientist Jon Fullerton and business professor William Ouchi discuss the political and organizational obstacles school districts face in trying to manage their finances and promote efficiency.