How Schools Spend Their Money

Just ignorantly or with purposeful indifference?

Educational Economics: Where Do School Funds Go?
By Marguerite Roza


As reviewed by Jay P. Greene

University of Washington professor and Gates Foundation advisor Marguerite Roza is the Indiana Jones of school finance. In her short but powerful new book, Educational Economics: Where Do School Funds Go?, Roza uncovers the hidden caves and tunnels that store the treasure of the public school system. Revealing where the money goes requires intrepid sleuthing, detailed analysis, and occasionally braving hostile natives.

The main finding of Roza’s explorations is that education dollars are allocated in ways that are sharply at odds with the stated priorities of public school systems. Education leaders say they want to devote greater funding to low-income students, but within most school districts per-pupil spending is higher at schools with more-advantaged students. Education leaders say they want to focus resources on the core subjects of math, reading, history, and science, but per-pupil spending tends to be much higher for electives, extracurricular activities, and sports. Education leaders say they want to emphasize remedial instruction to help lagging students catch up, but in most school districts per-pupil spending is significantly greater for Advanced Placement (AP) and gifted classes than for remedial ones.

The chief culprit in this misallocation of resources relative to stated priorities is the uniform salary schedule for teachers. In virtually every public school throughout the country, teachers are paid primarily according to their credentials, seniority, and “additional” work assignments and not at all according to subject taught, number of students served, or the difficulty or importance of their assignments. The net effect of this arrangement is that labor costs, the bulk of per-pupil spending, are distributed by formulas that are completely unaligned with stated priorities.

Schools with more low-income students tend to receive less per-pupil spending within districts because the higher-paid teachers with greater experience often transfer to schools with more-advantaged students who are less difficult to educate. Non-core electives, like art, music, gym, and shop, receive higher per-pupil spending because they tend to have fewer students per class than required core subjects, like reading, math, history, and science. Since all teachers are paid the same regardless of the subject they teach, smaller classes necessarily translate into higher per-pupil spending. Extracurricular activities and sports receive higher per-pupil funding because fewer students participate and teachers receive extra pay for assuming these “additional” assignments. Per-pupil spending on AP and gifted classes exceeds remedial classes because, again, fewer students tend to be in those advanced classes.

“How can those inside and outside the system allow such blatantly contradictory spending patterns to persist in their own schools?” Roza asks. Her first explanation is ignorance: “They generally do not know these patterns exist, as district budgeting and accounting practices make it incredibly difficult to identify detailed spending patterns.” But elsewhere Roza suggests that the problem is less benign than ignorance. She writes, “Powerful forces work to protect the interests of those who benefit from the present allocation of resources. Among those who benefit from the status quo are the more experienced teachers, influential parents with children in high-achieving schools, and board members who represent wealthier neighborhoods.” She also highlights the role that teachers unions play in determining the allocation of resources by championing the uniform salary schedule, transfer rights for more experienced teachers, and work rules.

Roza’s ambiguity about the causes of the mismatch between stated priorities and actual spending undermines her ability to propose solutions. If the problem is caused primarily by ignorance, then the solution lies in greater transparency through more rigorous and open accounting policies. But if the problem is caused primarily by the influence of powerful interest groups, then a political restructuring of incentives is required. If poor kids get the short end of the education stick because teachers unions and wealthy parents pursue their own benefit with indifference to the consequences for those less fortunate, then those interest groups have to be stripped of their control over allocating resources. This could be achieved...
by empowering families with direct control over education resources via vouchers or a weighted student-based formula for allocating government funds.

For most of the book, Roza leans toward the ignorance explanation: “The most important answer is that they don’t know about real spending patterns … Bad information leads to mistaken assumptions and ultimately misguided strategic resource decisions.” Unfortunately, this explanation for misallocated school spending is unsatisfying and fails to yield compelling solutions, even according to Roza herself. She lists a variety of school-finance reforms and argues that they are all “guaranteed to fail” because they do not address the “entire package of incoherent, inefficient, and inequitable spending.”

The solution, she acknowledges in the final two chapters, requires a more comprehensive restructuring of the education system than just transparency measures. On the final page of the text, she reveals how that restructuring might take shape when she emphasizes “the need to separate the functions of allocating resources, setting standards, and defining accountability from the function of making decisions about resource use. If states could recognize that they play some role in the first three, they might be convinced that they should not also take on the fourth.” This sounds like vouchers or weighted student-based funding, where the government funds education and establishes accountability for results while decentralizing to the family or individual school the power to decide how money is spent.

The book would be stronger if the political restructuring of the education system were addressed earlier and more fully. As it stands, readers are likely to get the mistaken impression that ignorance is the primary cause of the failure of school funding systems and improved awareness the solution. Ignorance is a problem, but it is the willful ignorance of malicious indifference. No solutions are possible without addressing that.

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