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**Eric A. Hanushek & Alfred A. Lindseth:  
Schoolhouses, Courthouses, and Statehouses**

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## Introduction

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American students are no longer competitive. For more than thirty years, student achievement has remained flat, even as education spending, adjusted for inflation, has almost quadrupled. Huge numbers of children cannot perform at basic levels in reading, math, and science, even by the time they reach the twelfth grade. This crisis is a national one, and the failure to find effective solutions threatens not only our individual well-being, but also our country's leadership in the world community. The principal solutions relied upon in the past have proven ineffective. Boosting student achievement will clearly require fundamental changes in the operation and financing of schools. No matter how much money we spend, we cannot hope to address this crisis simply by adhering to the practices of the past.

The importance of education in American life is difficult to overestimate. It is an article of faith, supported by fact, that is drummed into most children by their parents and repeated continuously by our leaders. It is the key for most people to experiencing the "American Dream," and for the better part of the twentieth century, the United States led the world in providing education for all of its citizens. Our country reaped huge benefits from a well-educated workforce, and as a result, we have enjoyed a standard of living that is the envy of the rest of the world. Yet, despite a financial commitment to K–12 education unmatched by any other country, in the last several decades, our education system has been failing us in important ways, particularly when it comes to our poorest and most vulnerable students.

The statistics are alarming. A quarter to half of twelfth graders enrolled in our public schools test below even the basic level in reading, math, and science skills. These statistics contrast dramatically with a 2003 national survey that found that nine out of ten parents of grade 6–12 students expected their child to continue

education beyond high school and two-thirds believed they would finish college.<sup>1</sup>

These statistics mask an even larger problem among the nation's poor and minority students, whose performance levels are much worse. A huge achievement gap has proved stubbornly resistant to closure over the decades, and has not significantly narrowed for almost twenty years. The average black and Hispanic students are as many as three or four grade levels behind the average white student.

As a consequence, U.S. students no longer lead the world either in the number of years of school completed or in the skills learned while in school. Indeed, they are not even close, ranking below average among the world's developed countries, even though the United States outspends almost all other developed countries on education by a wide margin. The country seems to be stuck in a rut, and achievement levels have remained largely stagnant since the 1960s despite massive efforts to improve them.

National and state leaders have tried to address this distressing situation in a number of ways over the last three decades. Few policy areas are as complex or as hotly debated as educational reform. Ideology, economics, politics, science, common sense, personal circumstances and experience, and a variety of different self-interests all enter into forming the mosaic of education reform. The public discussion seldom separates these elements, and from the same facts, different people draw widely varying conclusions that reflect their personal views of the relative influences of this mixture of ingredients. One group, often identified as "conservatives," argues that current funding of schools would be sufficient if only the money were spent more efficiently, while another group, usually described as "liberals," argues that the country is spending too little on schools and that more money is necessary to fix the problem.

A number of different policies designed to improve education has grown out of these debates. First and perhaps most important, governments at all levels have dramatically increased the amount of money they spend on K-12 education. Between 1960 and 2005, spending per pupil rose dramatically; adjusting for inflation, per-pupil expenditures almost quadrupled.

Most states have also made serious efforts to improve equity in funding among students and school districts. Using funding formulas that compensate for local wealth differences, states have been able to reduce the disparity in funding between school districts that come from schools' reliance on local property taxes to raise revenues. Funding formulas in many states have also been changed to drive more state aid to school districts with large proportions of students deemed "at risk" of academic failure. Whereas in the past, school districts with predominantly poor and minority enrollments had below average funding, that pattern has been reversed, and school districts serving high percentages of at-risk children are now, on average, as well, or better, funded than others.

These fiscal efforts not only have improved the fairness of the system, but also have enabled school districts to lower class sizes, hire additional personnel, and offer an array of specialized programs never imagined in the 1960s. Unfortunately, these additional resources have not significantly altered the patterns of low student achievement observed over the last several decades. The puzzle of why dramatically increased funding for schools has not shown up in student outcomes has baffled many. It is so at odds with what we see in other sectors of the economy that some economists simply reject the observation out of hand, presuming that they must have missed something in the analysis.

Indeed, some state legislatures have begun looking for other ways to improve student achievement, including holding schools and school districts more accountable for outcomes, expanding the pool of qualified teachers, and supporting programs like charter schools, which provide parents with more choice and exert pressure on the public schools to improve. On the federal level, the No Child Left Behind Act embraces many of these approaches. Some evidence suggests that these policies are having a positive impact, but their long-term effect is uncertain.

Perhaps the most significant feature of the evolving politics of school finance has been the increasing involvement of the courts, initially focusing on an equitable allocation of educational resources between school districts and more recently turning to the level of appropriations for K-12 education in many states. Serious

constitutional and practical problems are associated with having the judicial branch of government involved in making decisions related to educational policy and appropriations, historically considered the responsibility of the legislative and executive branches. Notwithstanding these concerns, state courts, deriving their authority from state constitutional provisions, have struck down the educational funding systems in over twenty states on the grounds that they do not provide sufficient funding for an “adequate” education and have ordered the state legislatures to make up the shortfall. Only in the last several years have the courts begun to take a more deferential attitude and to uphold appropriation levels set by state legislatures.

These “adequacy lawsuits,” as they are called, reached their peak in New York in 2004, when a Manhattan trial judge ordered the state legislature to increase funding for the New York City public schools by \$23 billion over the next five years. This included a \$5.6 billion increase in annual expenditures, a 45 percent bump over then current expenditures. If implemented, it would have brought per-pupil spending in the city’s public schools to more than twice the national average. The highest court in New York eventually reduced this judgment, ordering “only” a \$1.9 billion annual increase, but it did not back away from the principle that courts may properly set minimum appropriations for K–12 education.

Two-thirds of the American public is confident that increased funding for schools would lead to higher student learning.<sup>2</sup> As a result, at least publicly, few people appear to disagree with the underlying premise of such litigation: that massive increases in spending on education will enable all children, regardless of their background, to achieve at high levels—and many courts, like the legislatures, have also called for significant increases in K–12 spending. However, though judges are generally deemed less susceptible to political pressures, they have largely sided with powerful vested interests in the educational community to preserve the status quo, albeit at a higher level of spending, and have made little effort to change how education funds are used or to explore other methods of school reform. Consequently, the impact of court-ordered or induced remedies on achievement has largely mirrored

that of previous legislative efforts. Of the four states that have had the most significant judicial remedies in place the longest, only one—Massachusetts—has seen significant improvement by its students over the term of the court remedy. Even there, it is not clear whether achievement improved because of increased funding or because of other, more innovative remedial measures that the Massachusetts legislature found the political courage to pass. In the other three states—Kentucky, New Jersey and Wyoming—achievement patterns remain largely unchanged from what they were in the early 1990s when the remedies commenced; low performance and sizeable achievement gaps persist, despite huge increases in K–12 expenditures.

Both the judicial and legislative responses have been heavily influenced by the belief that science can provide the answers to the achievement dilemma. In many states, judges and legislators alike were convinced that so-called costing-out studies conducted by expert consultants could determine how much it should cost to provide an education resulting in high achievement for all students, regardless of their background. They were also convinced that certain programs and policies would lead to higher achievement if only the additional funds were available to implement them. But policymakers have not been well served by the scientific community, and costing-out studies are a prime example. The results of such studies vary wildly depending on the researcher and the methodology; they are often internally inconsistent, leading to sometimes ludicrous results; and, most important, they cannot be replicated in other studies, a failure that violates a basic tenet of science. Despite these fatal weaknesses, such studies have been cited and relied upon by many courts and legislatures in deciding the proper level of funding for education.

Other types of studies use more appropriate scientific methodologies, but still fail to produce consistent results. Classic examples are the studies on the effects of class size reduction. While the Project STAR (student/teacher achievement ratio) experiment in Tennessee found that reducing class size in the early grades (to between fifteen and seventeen students) significantly improved student performance, literally hundreds of other studies have reached less posi-

tive conclusions. And the results from implementing class size reduction policies have been commensurately disappointing. A good example is found in the California class size reduction program, a much emulated policy and one of the most expensive reform strategies ever undertaken in American education. That program, despite its multi-billion-dollar price tag, has resulted in little or no improvement in the achievement of the state's poor and minority students even though the spending remains embedded in state policy. Regrettably, this is not an isolated or unique example where policies, based on some scientific evidence, fail to lead to the promised or expected gains in achievement when applied on a broad scale.

If scientific evaluations produced a list of programs that could reliably be implemented on a systemwide basis, then the solutions would be relatively straightforward: legislate the termination of the ineffective programs and direct and fund implementation of the programs that work. But experience has shown that such top-down approaches are rarely effective. Schools differ, and programs that work in some might be ill-suited and ineffective in others. Thus, the formula for effective reform must be one that encourages districts and schools to seek out and implement those programs that work for them and raise student achievement. The current system in most states, however, is not suited to this approach, and in many states may actually discourage such performance-oriented decision making, preferring instead to specify policies and programs from the state capital.

A major impediment to effective school reform is that financial decisions have historically been separated from policy decisions about how to improve student outcomes. What appear to be "pure finance" decisions can and often do create barriers to improving student outcomes. Our recommendation is for states to use financial and other incentives as a way of energizing and motivating schools, school districts, board of education members, teachers, principals, administrators, parents, and children to do their best. Such incentives are currently absent from the system. It should not be surprising that when there is little cost to failure and little reward for success, America's schools often fail and rarely succeed in educating our children to the highest levels. It is time to recognize

that the finance system can be an important tool not only in paying for needed resources and programs (its present role) but also in motivating students, teachers, and school administrators to find more effective solutions.

With these principles in mind, we set forth in this book the parameters of an education policy and finance system that fully integrates school funding mechanisms with educational policy goals to promote higher achievement and more efficient use of funds. We call our proposal “performance-based funding” because each facet of it is designed to promote better performance by the stakeholders in the system, including schools, administrators, teachers, students, parents, and taxpayers. High uniform standards, strong accountability measures, performance-based compensation, increased management and spending control at the local level, dissemination of performance data (for schools and students), and other incentives all serve to encourage better performance. Other components of the proposal, such as value-added measurements—those that measure the contribution specifically made by schools to improve achievement—and the elimination of perverse disincentives that encourage “gaming” of the system, are also important. They ensure that incentives and other financing are based on data that truly reflect factors the school controls, and not outside influences, positive or negative. Still other components, such as giving parents some choice in determining where their children attend school and allowing districts to augment funding at the local level, engage parents and the community in encouraging schools to produce well-educated students—and in holding them accountable if they do not.

A performance-based funding system will undoubtedly step on some toes and meet with vigorous resistance from those interested in preserving the status quo. The politically powerful teachers’ unions, in particular, are on record as opposing performance-based pay, modification of teacher tenure laws, and expanded choice options. In the past, they have been very good at convincing the public that what is good for the unions is also good for teachers and, most important, for children. But this trend is changing. More and more people are asking, for example, how it can possibly benefit children

to retain unqualified teachers or to pay bad teachers the same amount as good teachers. (America's foreign competitors do neither of these things.) Many union supporters, aware that the public is beginning to recognize these truths, are starting to soften their stance on some of these issues.

Undoubtedly, some costs will be involved in changing from the current system to the system we propose; teachers and others with job security guarantees and other vested rights will not willingly give them up without recompense. However, such costs are likely to be substantially less than many of the education reform measures currently in vogue, such as class size reduction programs. Most important, by paying these transitional costs now, we ensure that future education monies will be productive. State legislatures will bear the brunt of the task, but courts that elect to undertake such cases can also play a more constructive role than they have in the past—for instance, by making clear that schools have problems other than money shortages, and by giving reform-minded legislatures more leverage in trying to bring about necessary changes.

In the chapters that follow, we develop in detail what has transpired in the past and what it will take to get America's schools back on the right track. But it is perhaps also important to stress here what this book does not attempt to do— either because, in our opinion, such quests may not be fruitful or because the solutions are better left to more qualified persons. First, we avoid debating what particular education programs and strategies will work best to raise student achievement. The fact is that some strategies may work well in some schools or school districts, but not in others. We leave those decisions to the people best qualified to make them: the educators on the ground in the local schools and districts. Under our proposal, it will be in their self-interest to use resources to improve student achievement, while under the present compensation and reward system, whether a teacher or program actually helps children is typically irrelevant.

Second, this book does not argue for decreasing financial and other support for public education, but for making more effective use of our education dollars at whatever level they might be set.

Finally, unlike the proponents of many education fads in the past, we make no claims that the measures we propose will eliminate the existing achievement gaps. So many factors, inside and outside the schools, influence student achievement that no one can credibly make such promises. Nor do we attempt to parse out the fault for this predicament. Rather, we choose to focus on what schools can do, with the help of incentives provided by the school finance system, to solve the problem of low achievement.

We do say, however, that a performance-based funding system is likely to significantly raise achievement for all students, once again making our students competitive on the international scene, and ensuring that the nation will not wake up again forty years from now with its students still performing at 1970 levels. We also believe that this program will dramatically improve the achievement of minorities and disadvantaged students who have yet to garner the full benefits of our schools.

These measures will not be easily accepted or implemented, given strong opposition to some elements of our proposal from a number of quarters. But in view of the record of the last several decades, it is imperative that we get started.