Proposal for Center for Equitable Growth (CEG) Research Grant, May 2012

School Finance Equalization and Student Outcomes

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Elementary and secondary education in the United States has traditionally been funded out of local property taxes, with rates set by local taxpayers. This arrangement has been criticized on equity grounds, as districts with high property wealth per student – roughly, those with wealthy residents – can afford higher levels of per-pupil spending at lower tax rates than can poorer districts. Thus, beginning in the late 1970s, states gradually reformed their finance systems to ensure greater equity among districts. The reforms were heterogeneous – some states essentially centralized school funding, while others implemented what amounted to taxes on high-wealth or high-spending districts and transfers to low-wealth or low-spending districts. More recently, in the late 1980s and early 1990s, debate shifted from "equity" to "adequacy," motivated by the views that equal but low spending is inequitable in effect and that disadvantaged students may need more resources to succeed than do their more advantaged peers.

There were a number of studies of school finance equalization published in the 1990s and early 2000s, but little consensus about the impact on student outcomes. The economic literature has been largely silent on the topic since. This means that we know little about the impact of adequacy-oriented reforms on student outcomes. Moreover, while new data sources – in particular new data sets containing achievement measures for representative samples of students – have become available in recent years, these have not been used to illuminate the past debates.

This project will adapt the research design of Card and Payne (2002) to examine school finance reform over a longer time period, using the superior data sets that are now available. Card and Payne examined the impact of 1980s funding reforms on the slope of student outcomes (measured by average SAT scores) with respect to family background, using a sample that cut off in 1992. They were hampered by several factors that the current study can avoid: Their outcomes data came only from students who self-selected into taking the SAT; they were unable to match student outcomes to district-level demographic or finance characteristics; and they were unable to examine post-1992 adequacy-oriented reforms. I will take advantage of now-available representative samples of individual outcomes from the National Assessment of Educational Progress, matched to the districts that students attend, and of state databases of school-level outcomes. This will enable me to examine the slope of outcomes with respect to district wealth directly, thereby to obtain more credible estimates of the effect of school finance rules on the educational outcomes of disadvantaged children.

The project has clear policy implications. School finance reforms have not been trendy in recent years, as attention has shifted to reforms in the educational process that are roughly cost-neutral. It is not clear that this shift has much intellectual basis, and the results of this study could either support the shift in focus or call attention to a now-neglected, potentially important path toward improved educational equity.

Budget & Justification:

Summer support for Jesse Rothstein (0.5 mo. @ $23,333 / month)	$11,667
Fringe benefits @ 30%	$3,500
Travel to present at conferences	$4,000
Computer software / equipment	$1,000
GSR Step III ($3,229/mo): 3 mo @100%	$9,687
Total:	$29,854

This budget will allow the PI, Jesse Rothstein, to devote 1 month of effort to the project in summer 2012, beyond that available from other funds. It will also support a GSR (tentatively, Patrick Lapid) to assist with data processing. Finally, it will support upgrading of software and travel to present at professional conferences such as the annual meeting of the Econometric Society or the Society of Labor Economists.