

Fixing Schools through Finance

by Eric Hanushek

Overview

The amount of spending on schools is frequently used as an indicator of the quality of schools. In discussions of how to make schools better and more equitable, the first argument one often hears is the necessity of increasing our spending levels.

In general, though, it appears that *how* funds are spent is crucial—and generally more important than *how much* is spent. To date, little headway has been made in determining the particular contexts or uses of funds that yield significant student learning gains.

An effective funding policy should focus on outcomes, should use data and analysis to understand impact, and should reward those who contribute to success. Incentives should be structured so that the decision makers take actions that lead to better student outcomes.

Guidance for Policymakers

- A fundamental problem is that we do not have a set of simple policies that can be put in place that have a high probability of successful impact on student achievement.
- Charter schools can offer the greater flexibility and parental choice that result in a higher probability of student success.
- The key idea behind a new funding system would be recognizing and rewarding success. Today many public funding programs do the opposite: they reward failure. For example, if a school shows poor performance from its students, more funds are provided; if the school shows improvement, funds are reduced.
- The central elements of a successful funding system would include a strong accountability system with incentives and rewards for successful performance, empowered local decision making by both schools and parents, and an ongoing information and evaluation system. This would all be built on a rational and equitable base of funding that provides basic support and that recognizes both the different abilities of districts to raise revenue and different costs for educating individuals.

What the Research Tells Us

- Public school revenues in 2019 were more than four times those in 1960 in real terms. Except for a dip due to the 2008 recession, real per-pupil spending (i.e., adjusted for inflation) has risen continuously for more than one hundred years.
- School finance litigation has occupied the attention of state legislatures across the country, but it has not changed the overall funding outcomes across the states.
- With high probability, adding resources to schools has a positive effect on student outcomes. That impact, though, is highly variable and depends on the context and constraints on the spending.
- Some institutional structures tend to promote better achievement than others. Recent evidence points to good overall performance results from allowing the greater flexibility and parental choice that come with charter schools.

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