

A Penny Saved

How Schools and Districts Can Tighten
Their Belts While Serving Students Better

American Enterprise Institute

Thomas B. Fordham Institute

January 11, 2010

The collected papers from this conference are available online at
<http://www.aei.org/event/100164>.



America's Public Schools Face a Far Less Fortunate Fiscal Future

**AEI/Fordham "Penny Saved" Conference
Washington DC
Mayflower Hotel
January 11, 2010**

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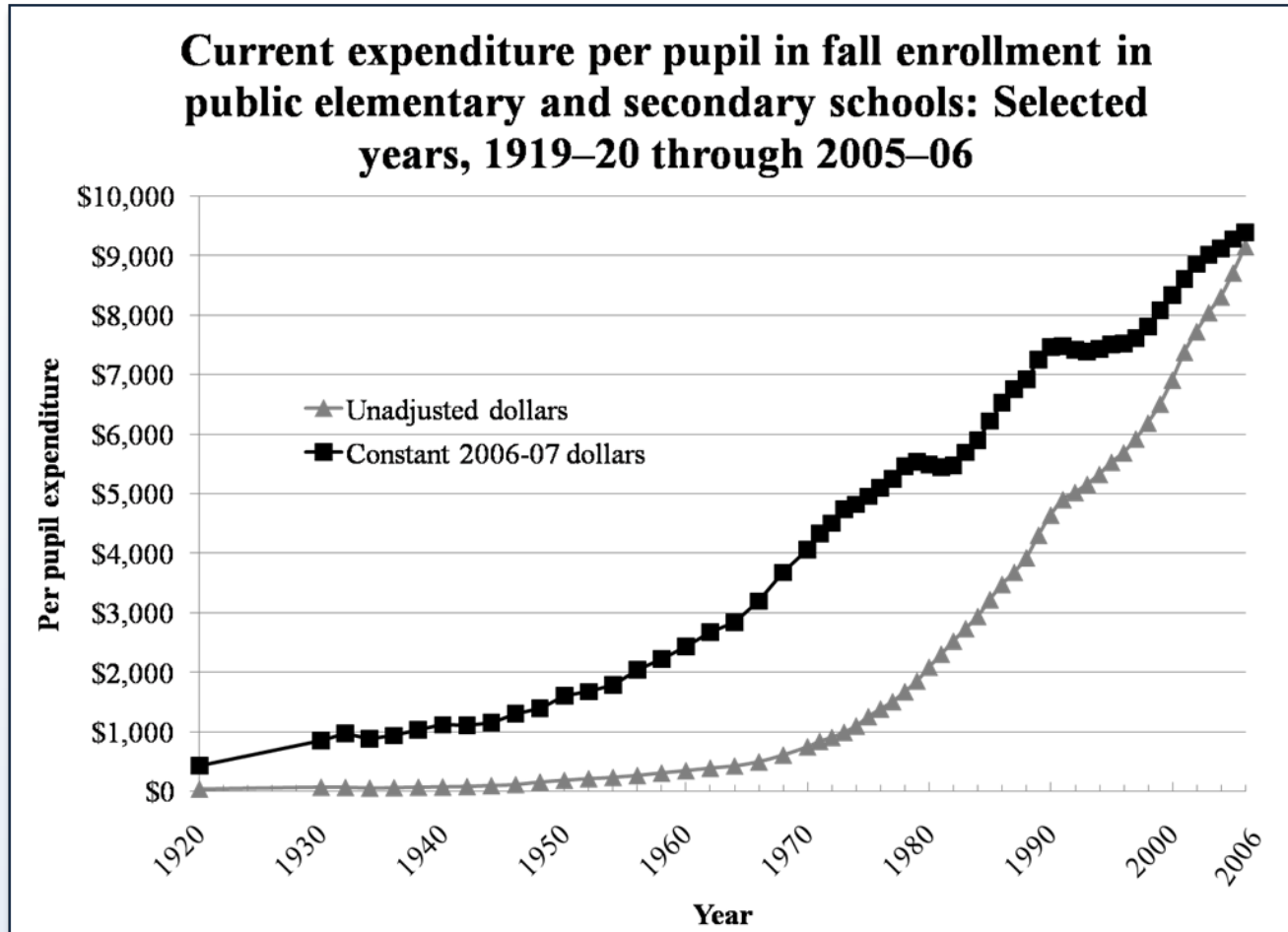


Themes

- America's Schools Have Experienced a Remarkable One-Hundred Year-long Period of Sustained Year-Over-Year Real Dollar Per Pupil Revenue Growth
- An Emerging Coincidence of Seemingly Irreversible Conditions Virtually Assures that this Century-Long Fortuitous Fiscal Trend Will Significantly Slow or Come to a Halt Altogether in the Foreseeable Future

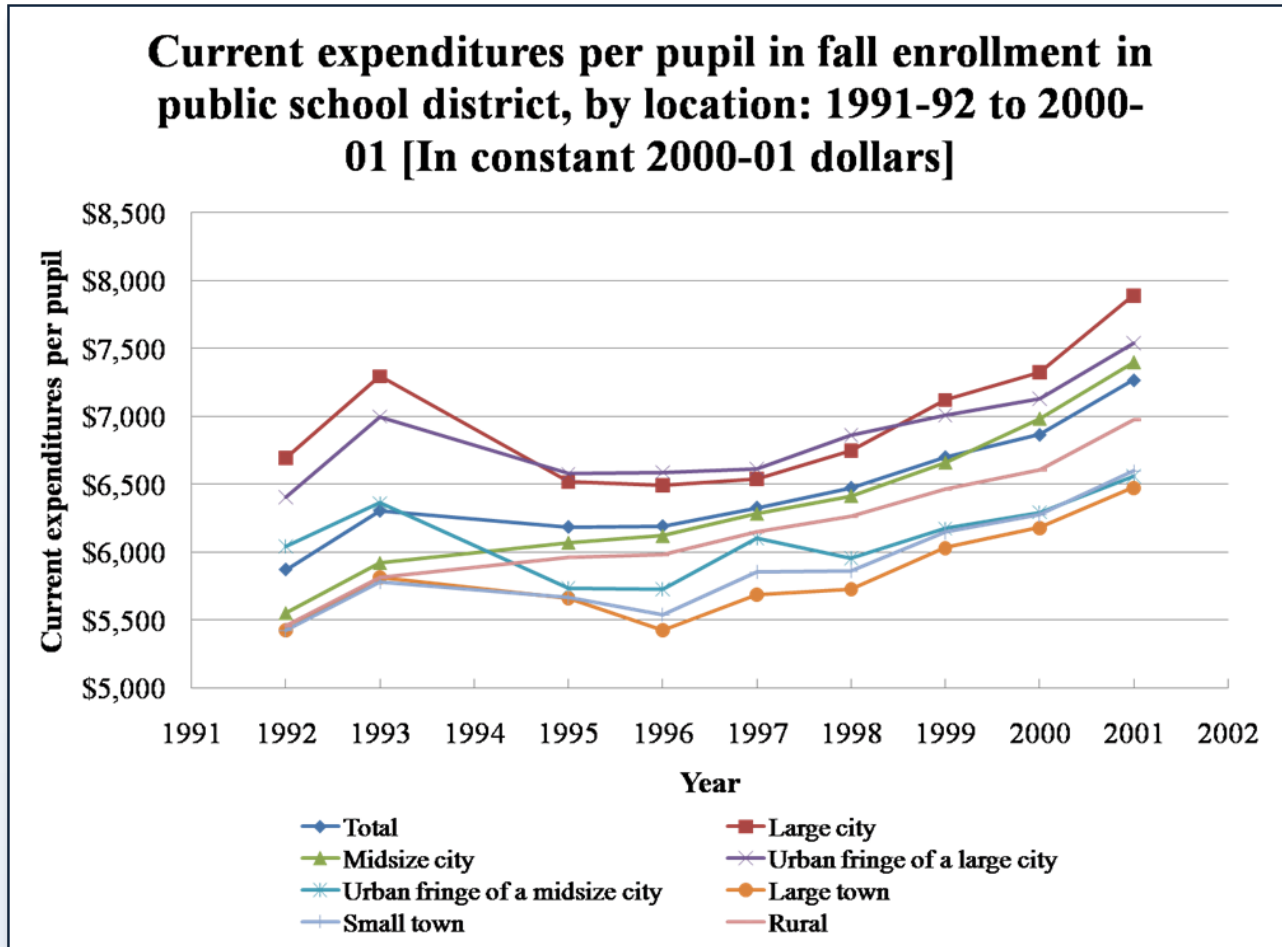


One-Hundred Years of Fiscal Growth





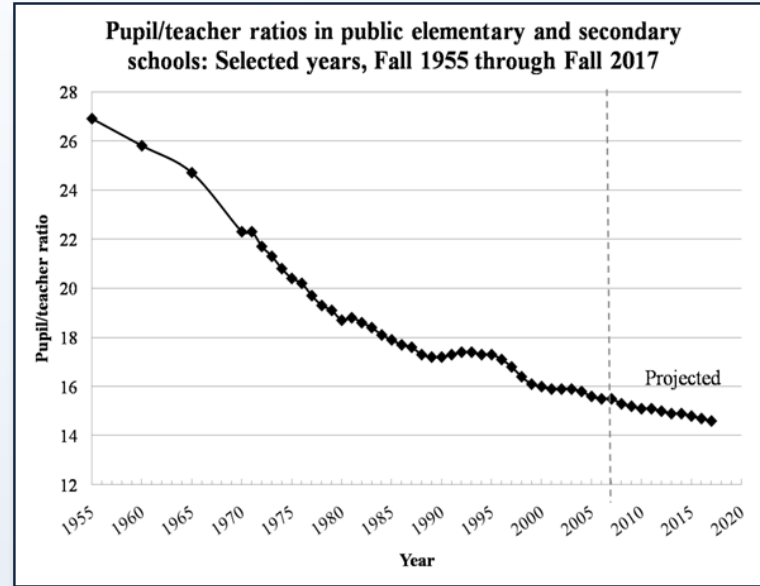
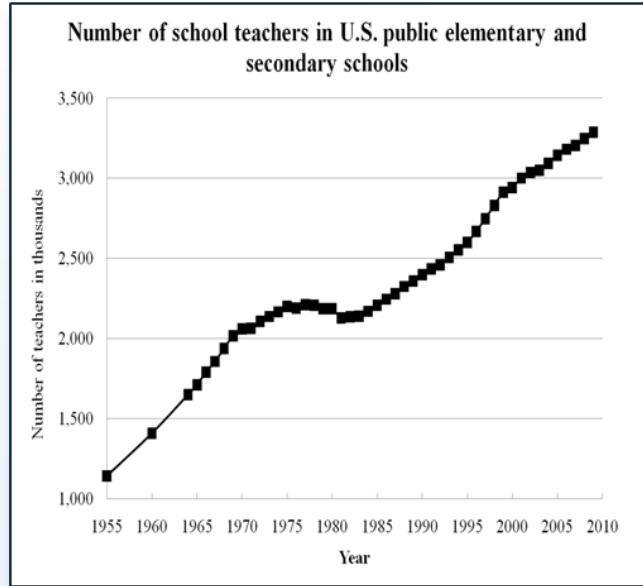
All Types of Districts Have Experienced Fiscal Growth





What The Money Has Purchased

Mostly People



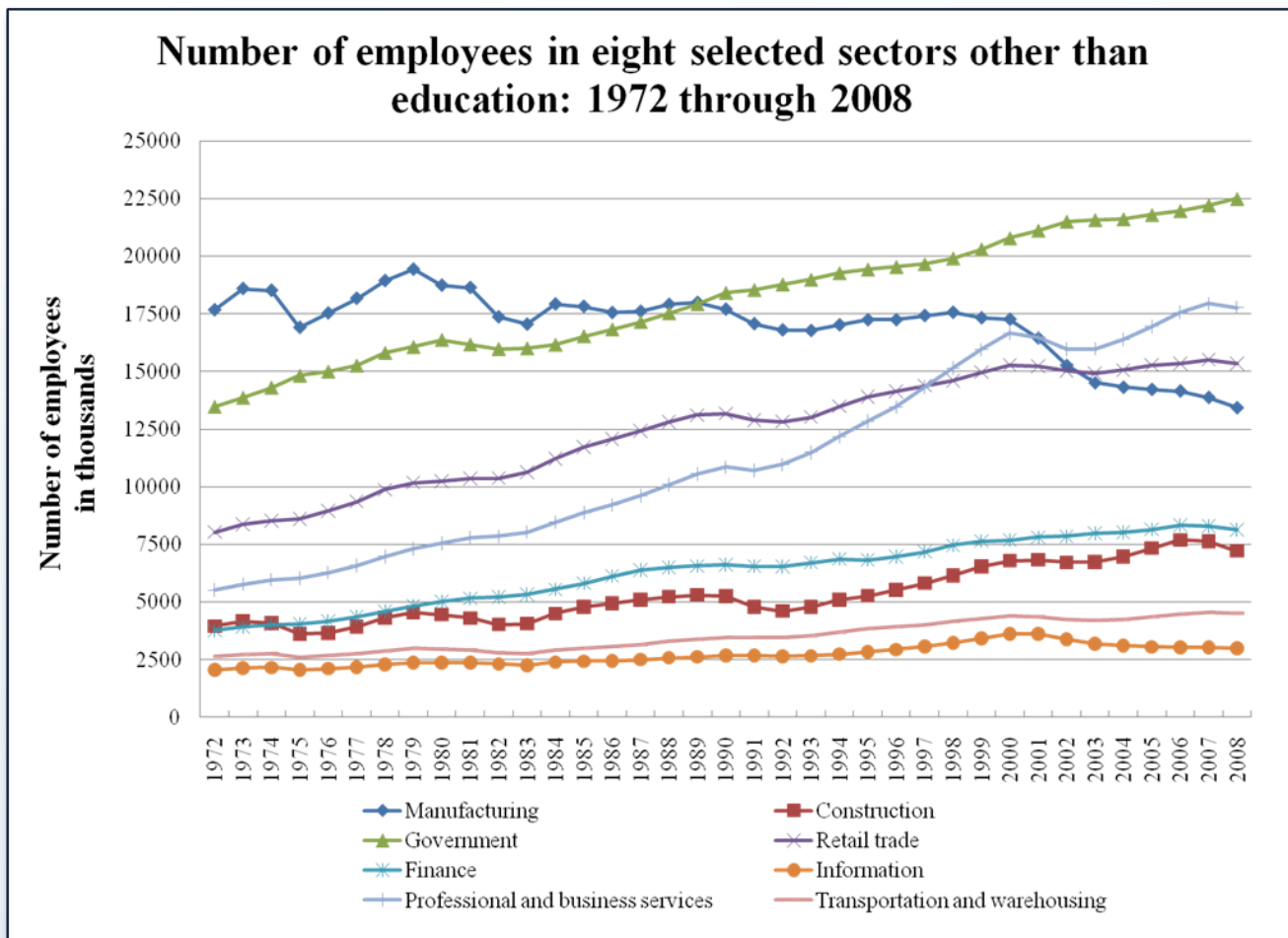


Mechanisms By Which Public Education Preserved Its Favorable Fiscal Position

- **Constitutional Provisions**
 - State Constitutional Primacy
 - Equal Protection Suit Reinforcement of Education's Primacy
- **Structural Insulation**
 - Local School Districts Are Special Governments
 - School District's Targeted taxing authority
- **Property Tax Dynamics**
 - Unusual Revenue Resilience in Times of Economic Downturn
 - Reasonable Revenue Elasticity in Times of Economic Upturn
- **Political Protections**
 - Micro Decoupling
 - High Transaction Costs for Citizens
- **Mis-Specification of Educational Quality**
 - Mistaking Inputs for Outputs
 - Preserving Capitalized Home Value of Perceived Excellence in Prestigious Districts

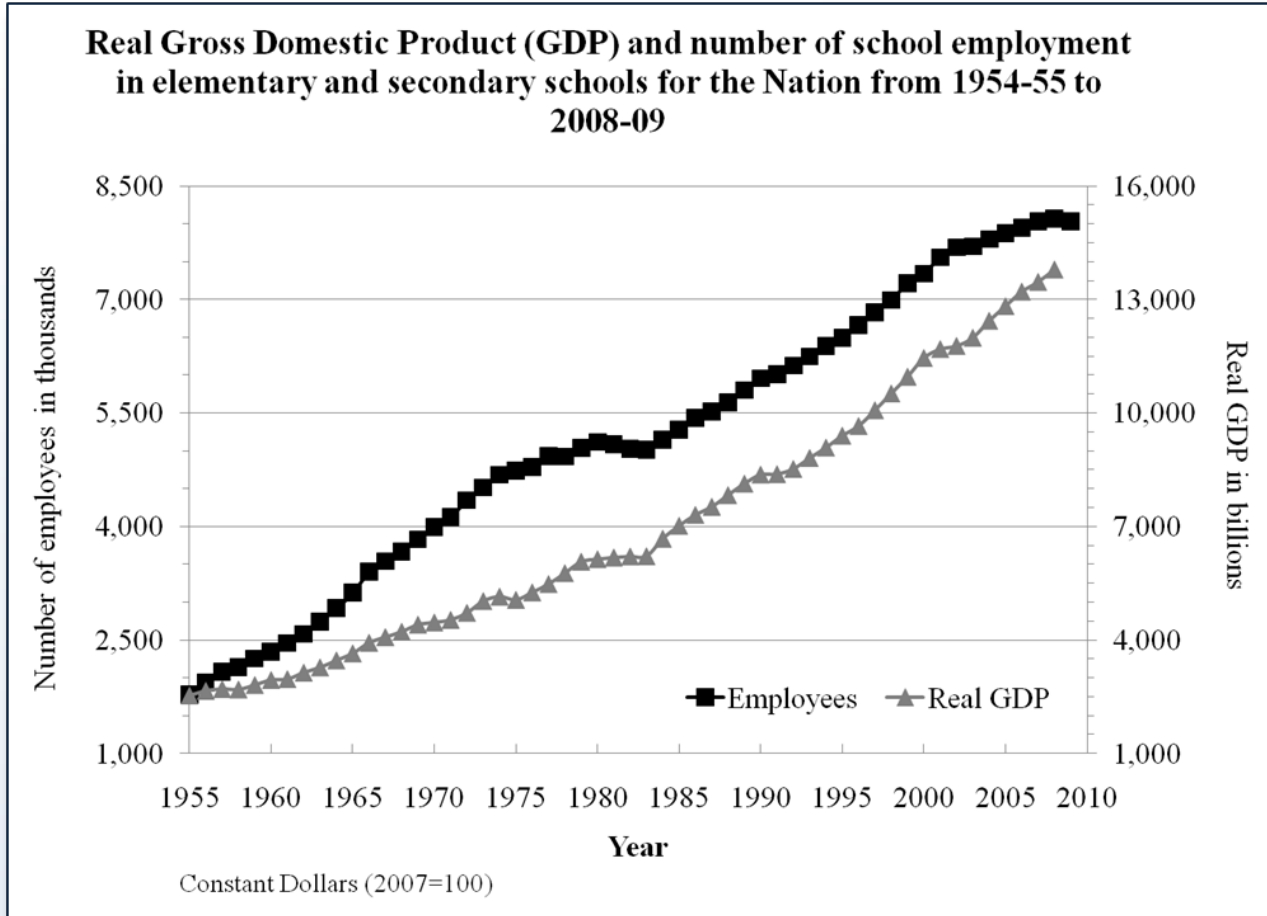


Illustrating Education's Economic Resiliency: Schools Compared to Other Sectors



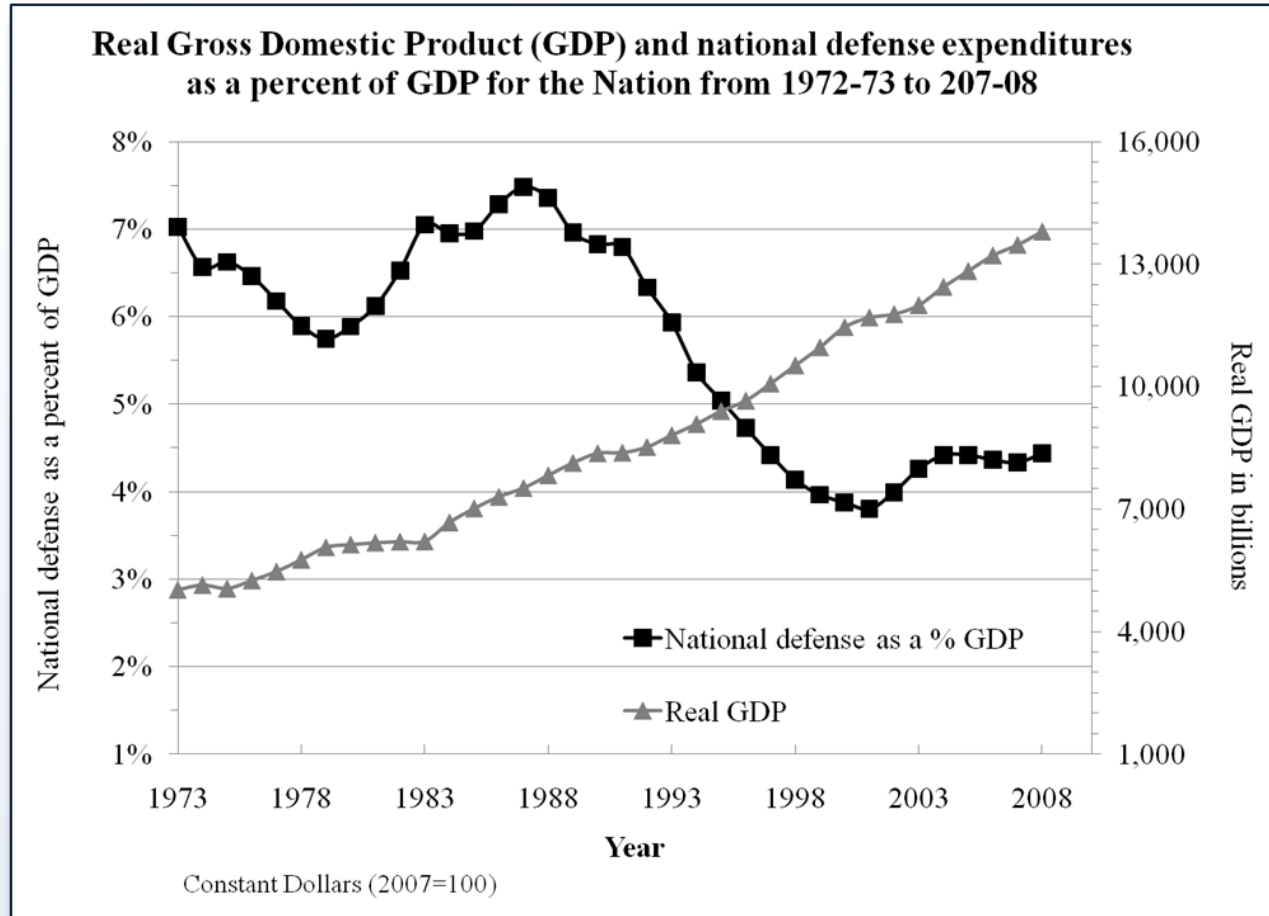


Education Hiring Relative to GDP Growth





Defense Cannot Match Education's Privilege



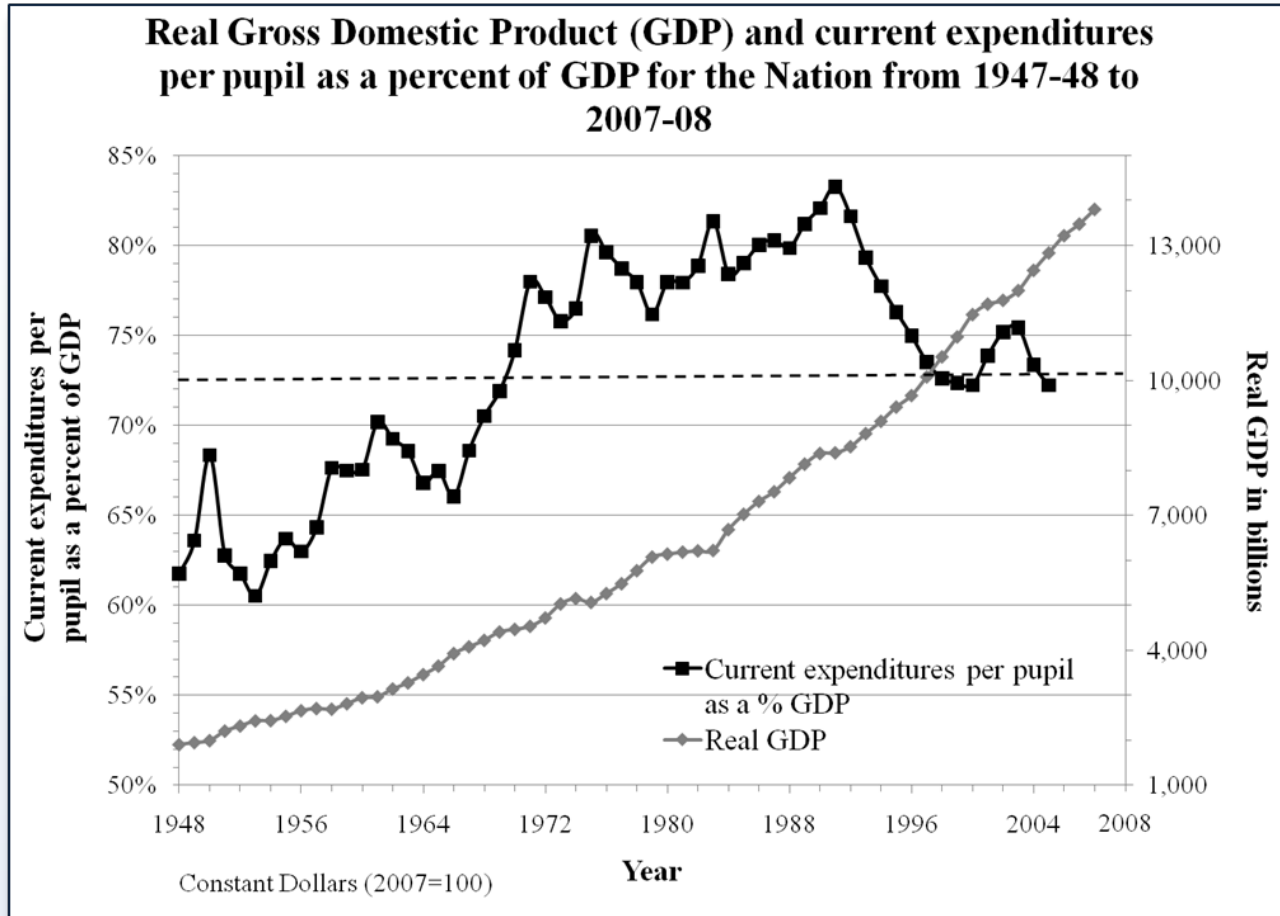


Education's Revenue Curve Almost Assuredly Will Bend

- Short Run
 - Business as usual
 - Sustained Federal Bailouts
- Longer Run (2012 and Beyond)
 - Subtle Downward Shift Already Occurring
 - Numerous Negative Conditions Emerging



The Leading (and Barely Perceptible) Edge of the Revenue Downturn Likely on the Horizon



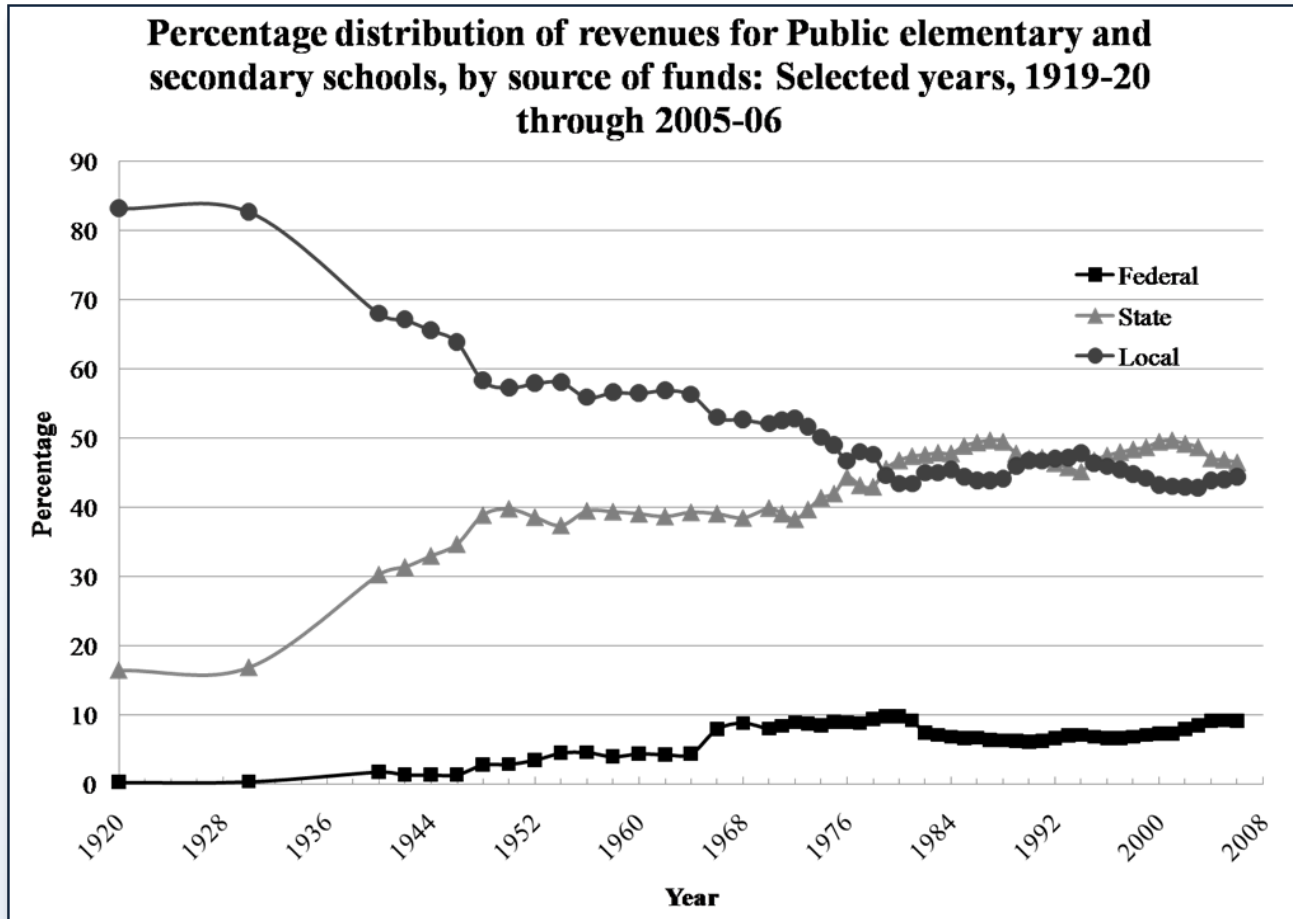


Education's Favorable Fiscal Trend Likely Cannot Overcome the Following Emerging Conditions

- Centralization of Revenue Sources
 - Erosion of Education's Protected fiscal Status
- Intensified Resource Competition
 - Politically Attractive Physical Infra-structure and Social Service Demands
 - Mounting National Debt
 - \$12.5 Trillion and Growing
 - Underfunded State and Federal Social Security, Medicare, Prescription Drug, Public Pension and Health Liabilities
 - \$100 Trillion and Growing
- Issues of Productivity
 - Undiminished Labor Intensity
 - Inability to Augment Labor with Capital
- Discouraging Demographic Dynamics
 - Fewer Households with School Age Children
- Public Concern for Education System Performance
 - Stagnant Achievement No Longer Acceptable

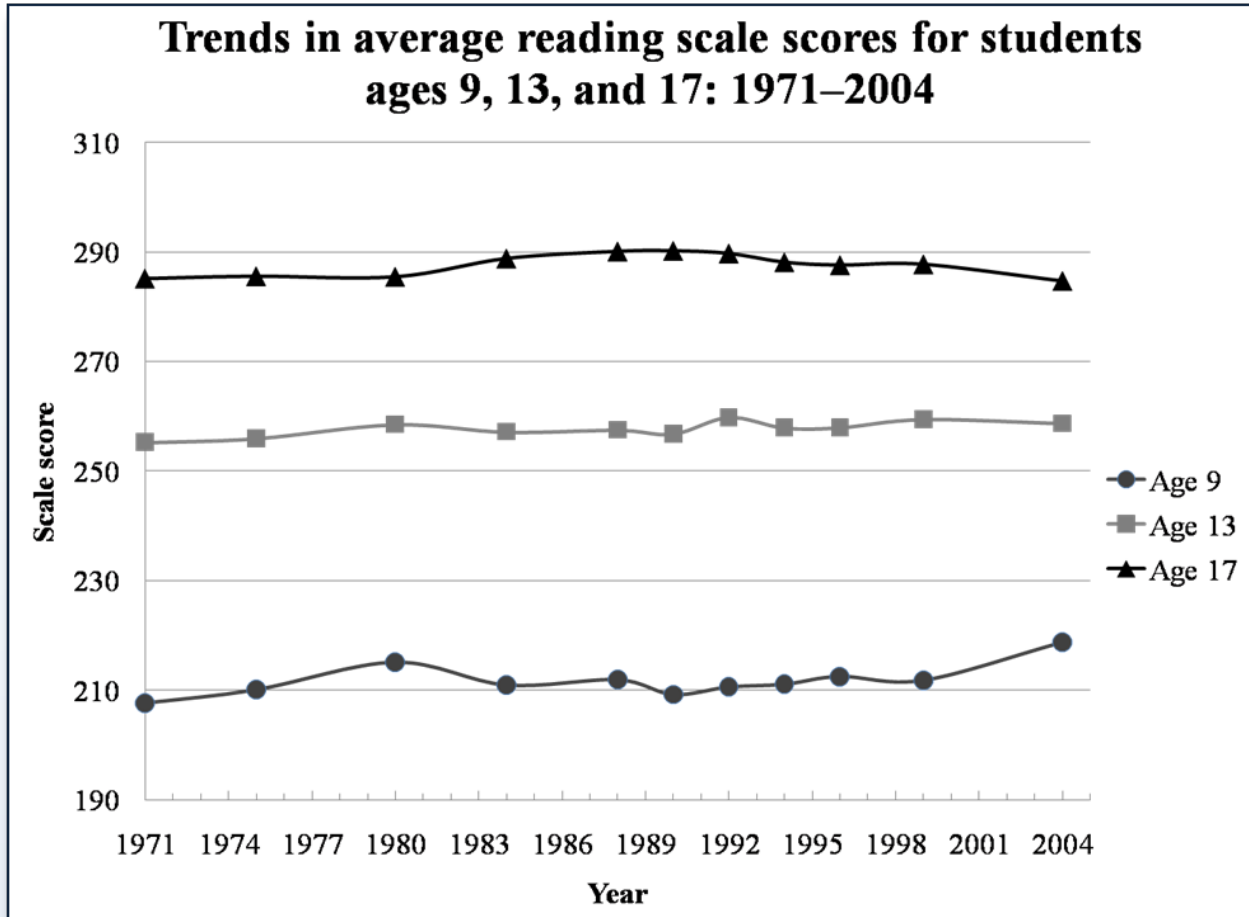


Growing Role of Central Governments (Federal and State) in Financing America's Schools



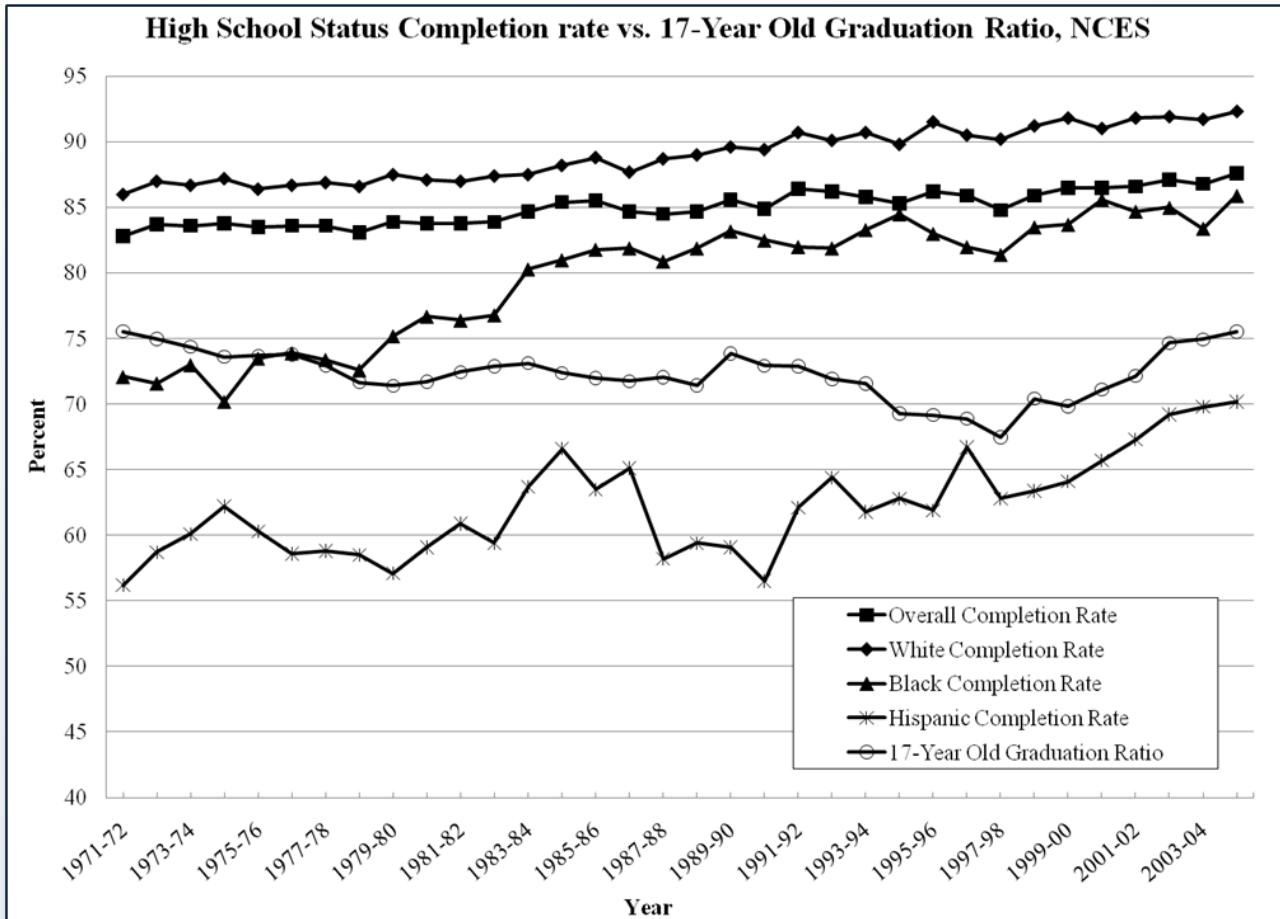


National Assessment of Educational Progress: *Four Decades of Achievement Stagnation*



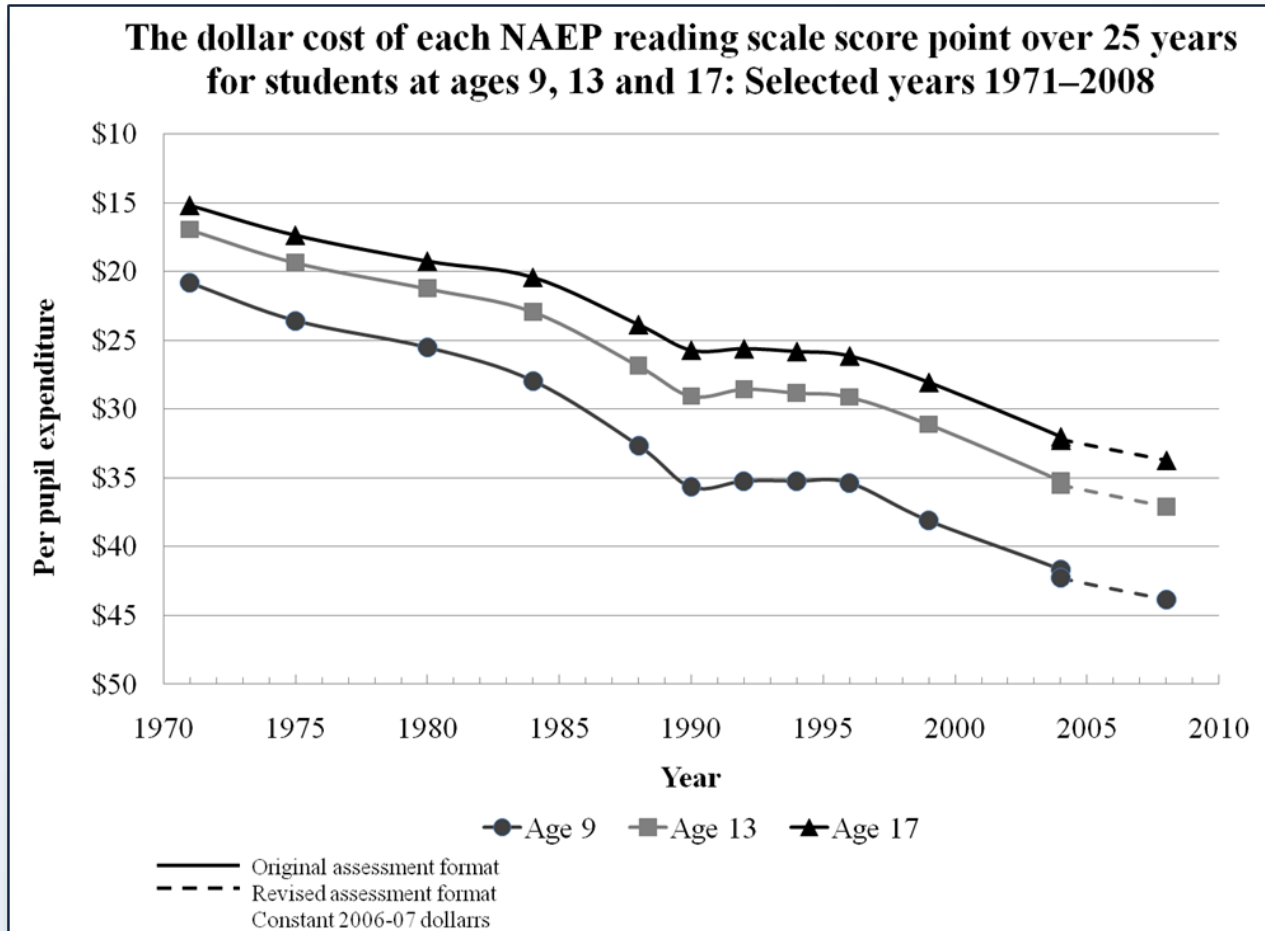


Seventeen-Year Old High School Completion: *Stagnant for Four Decades*



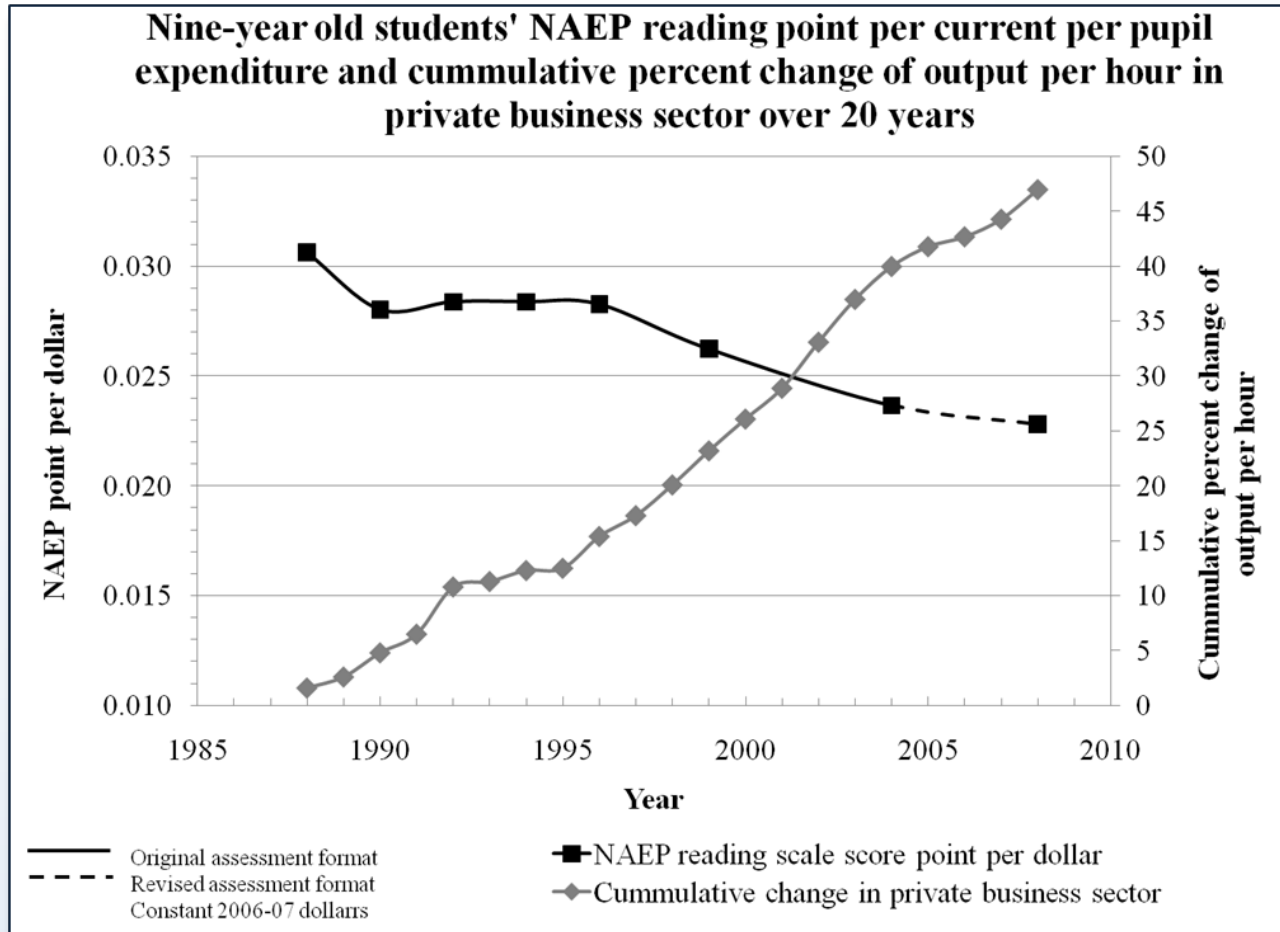


Declining Education Productivity *(Cost of Each NAEP Point is Doubling)*



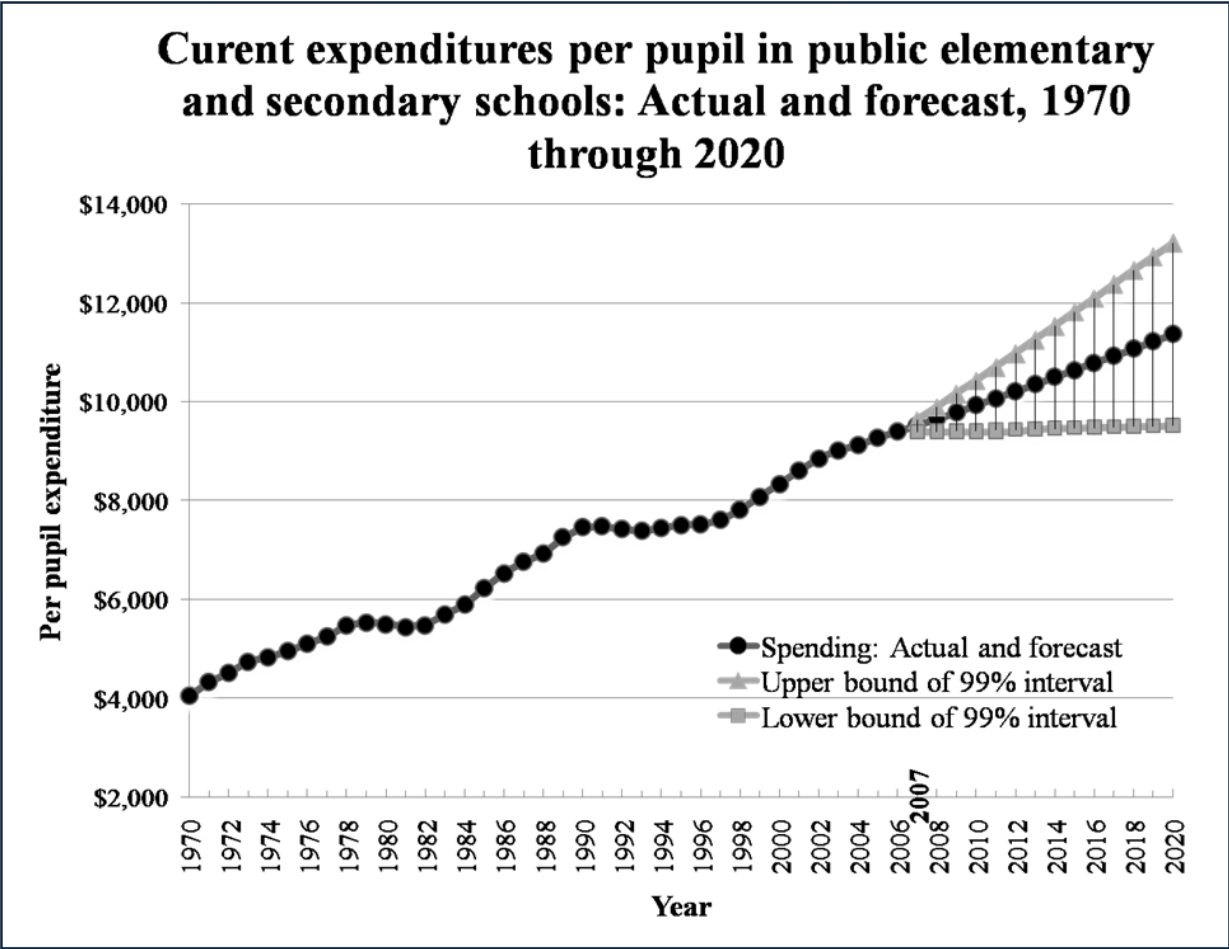


Education Productivity Relative to Entire American Economy





Bending the Curve of Past Per Pupil Spending





Conclusions

- Era of Favorable Fiscal Growth is Likely Over
- Quests for Productivity Will Likely Intensify
- Operational Belt-Tightening is a Short Run Fix
- Education's Long Term "Big Money" is in People
- Productivity to Be found in:
 - Eliminating Dysfunctional Remuneration Practices
 - Augmenting Labor with Capital
 - Constructing Virtuous Circles of Conscious Experimentation, Objective Appraisal, and Fast Failure

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