



Taking a Fresh Look at Educational Spending

Texas at a Turning Point

Texas Public Policy Foundation

Austin, Texas

April 16, 2014

Richard Alm

William J. O'Neil Center for Global Markets and Freedom

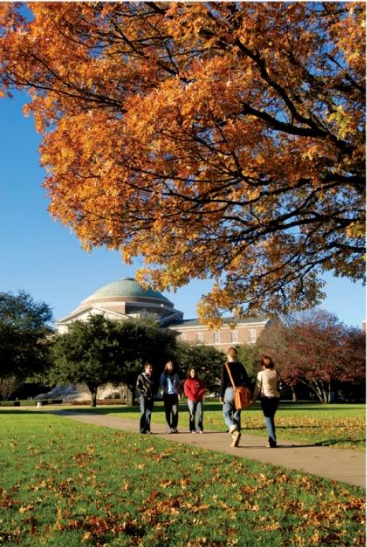
SMU Cox School of Business



W. Michael Cox

Director
O'Neil Center
for Global Markets and Freedom

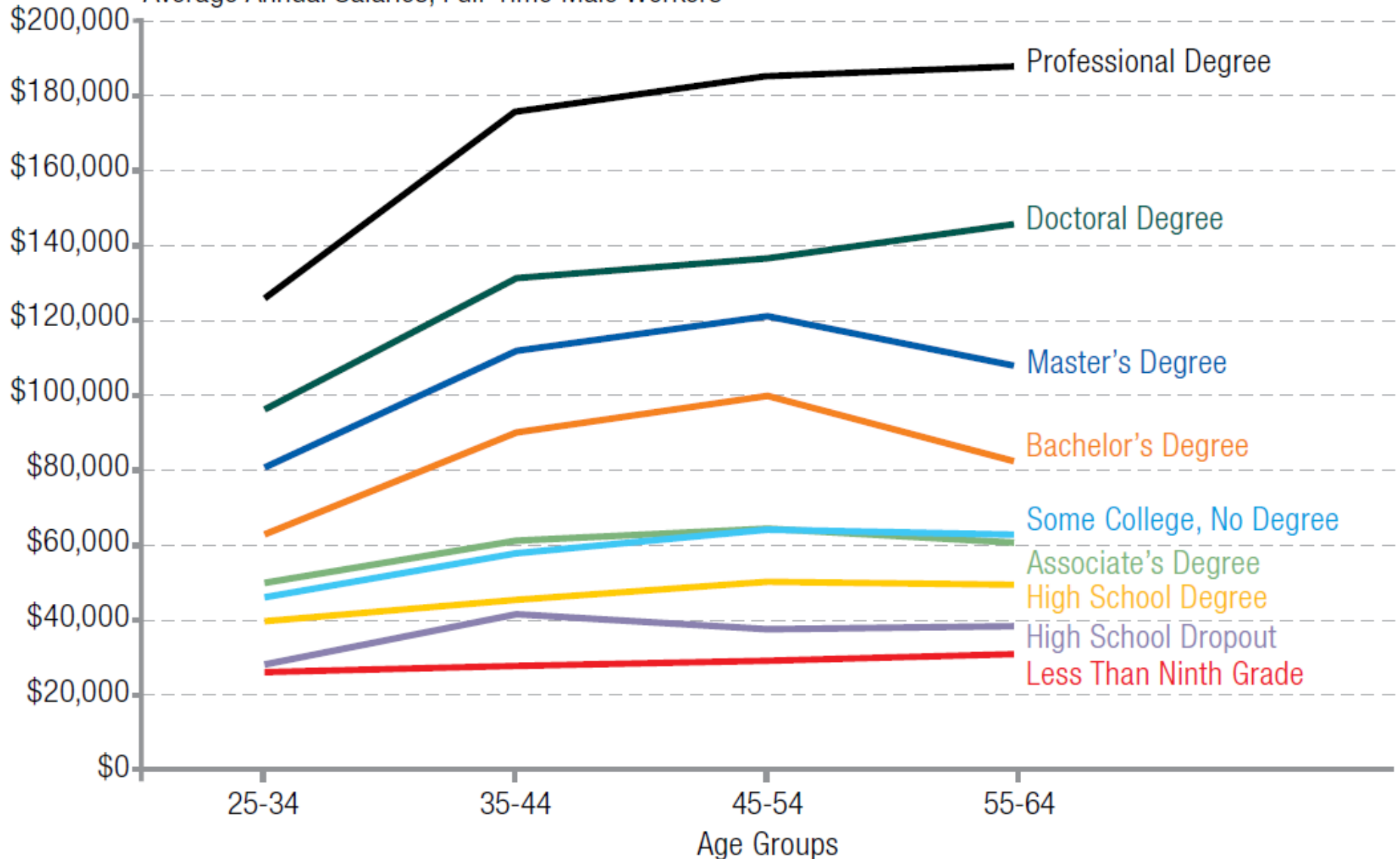


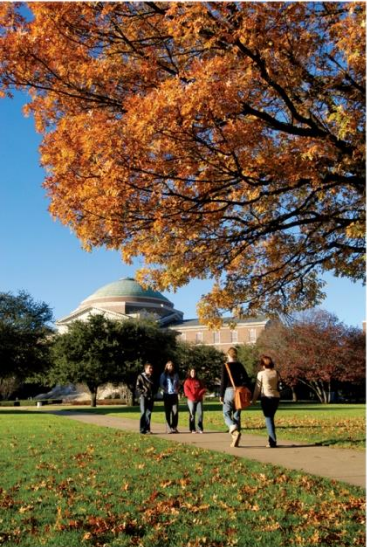


Education:
Good for Individuals,
Good for Society

Income by Education and Age

Average Annual Salaries, Full-Time Male Workers

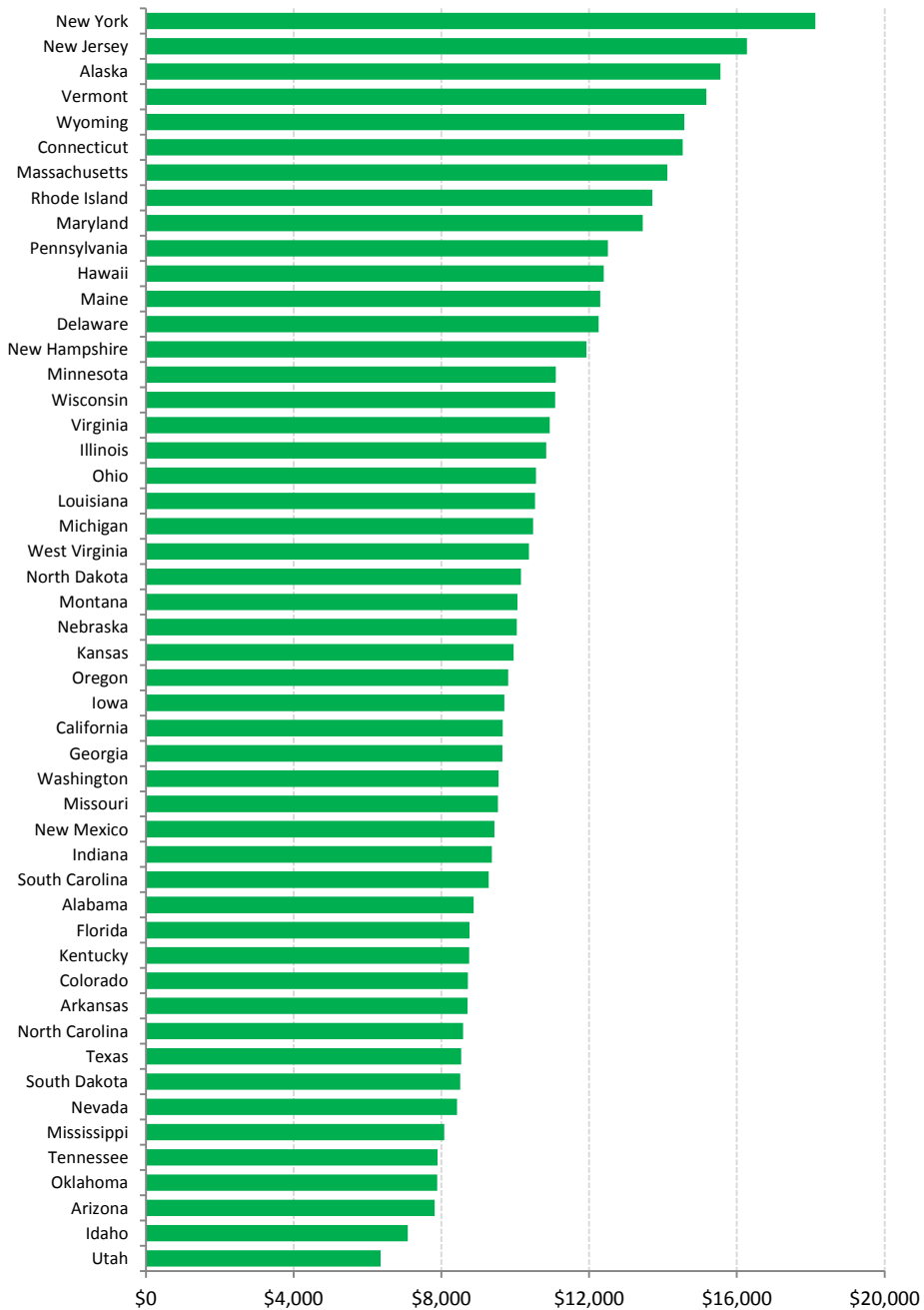




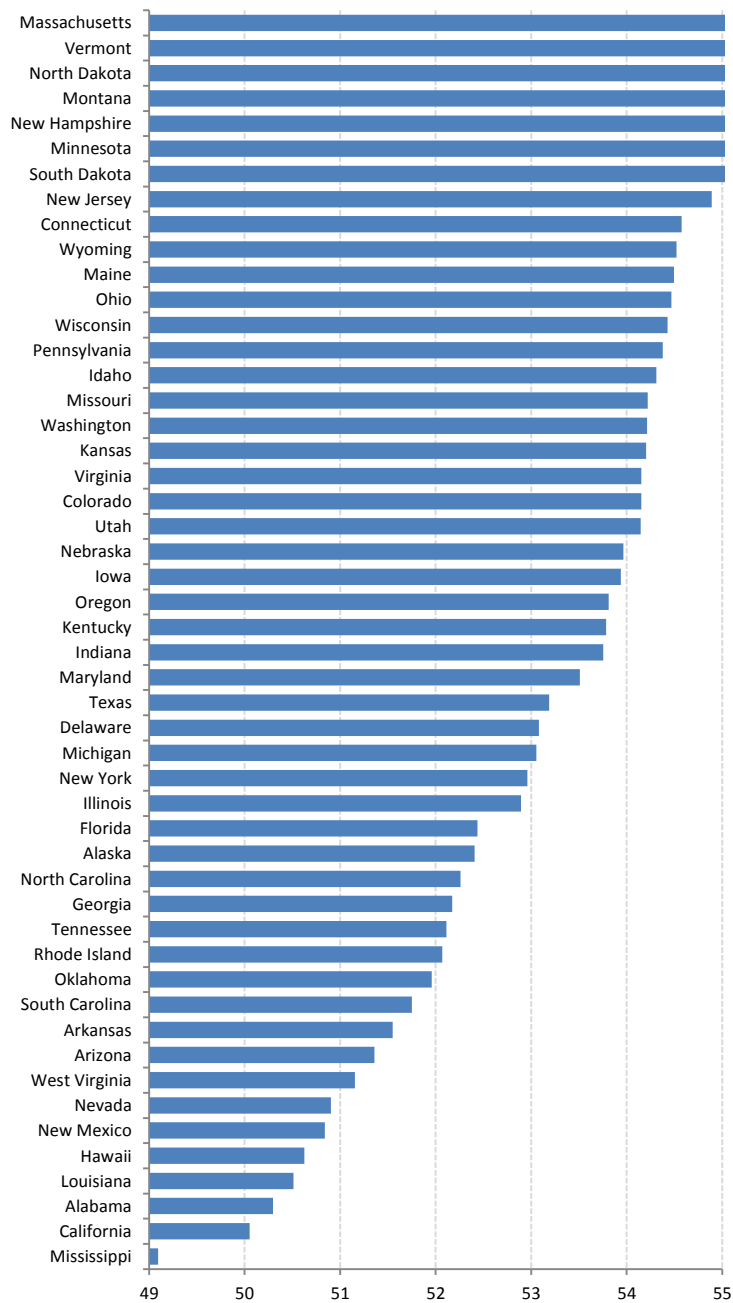
Education:
Good for Individuals,
Good for Society

So Spend More on it!

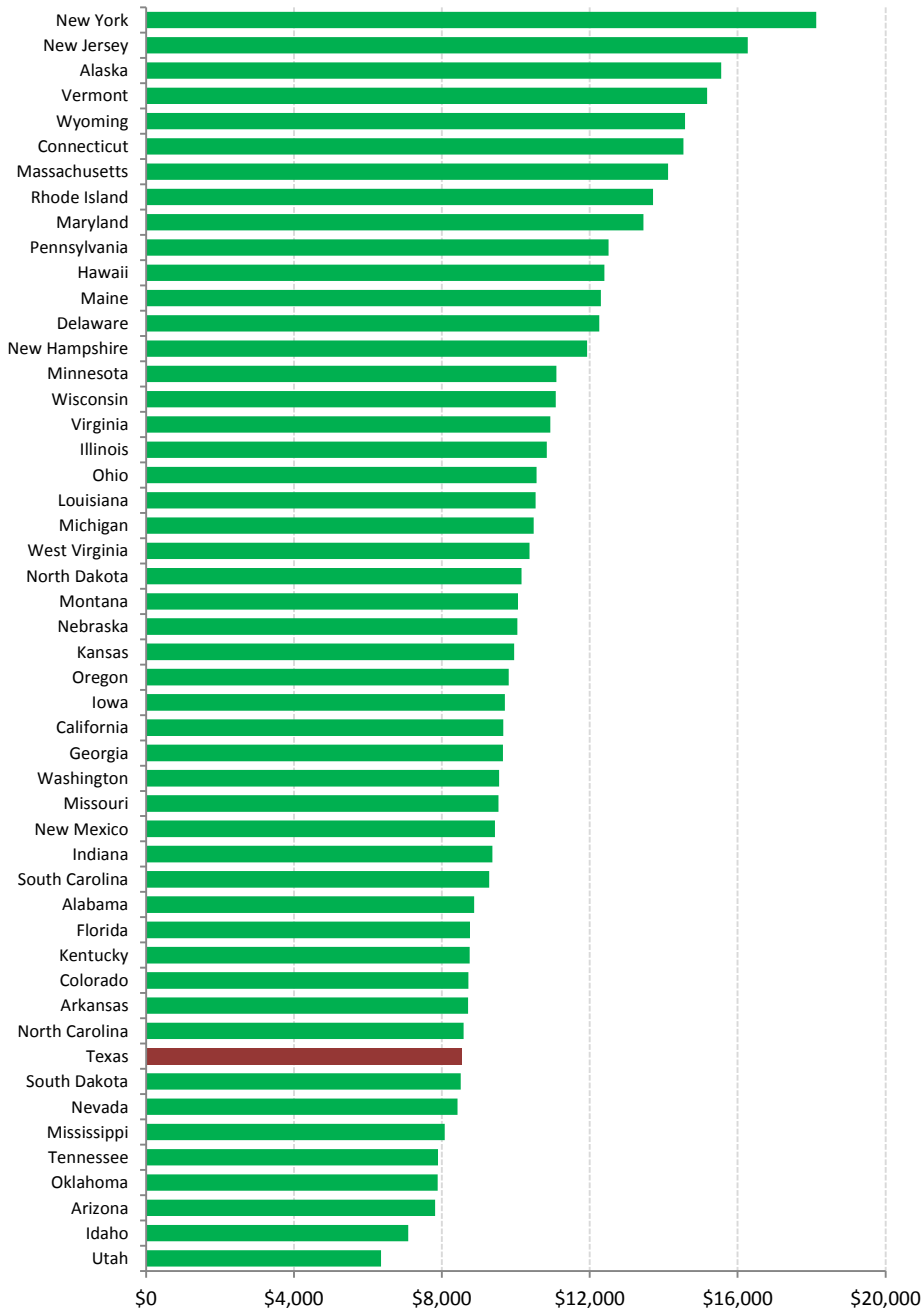
Spending Per Student



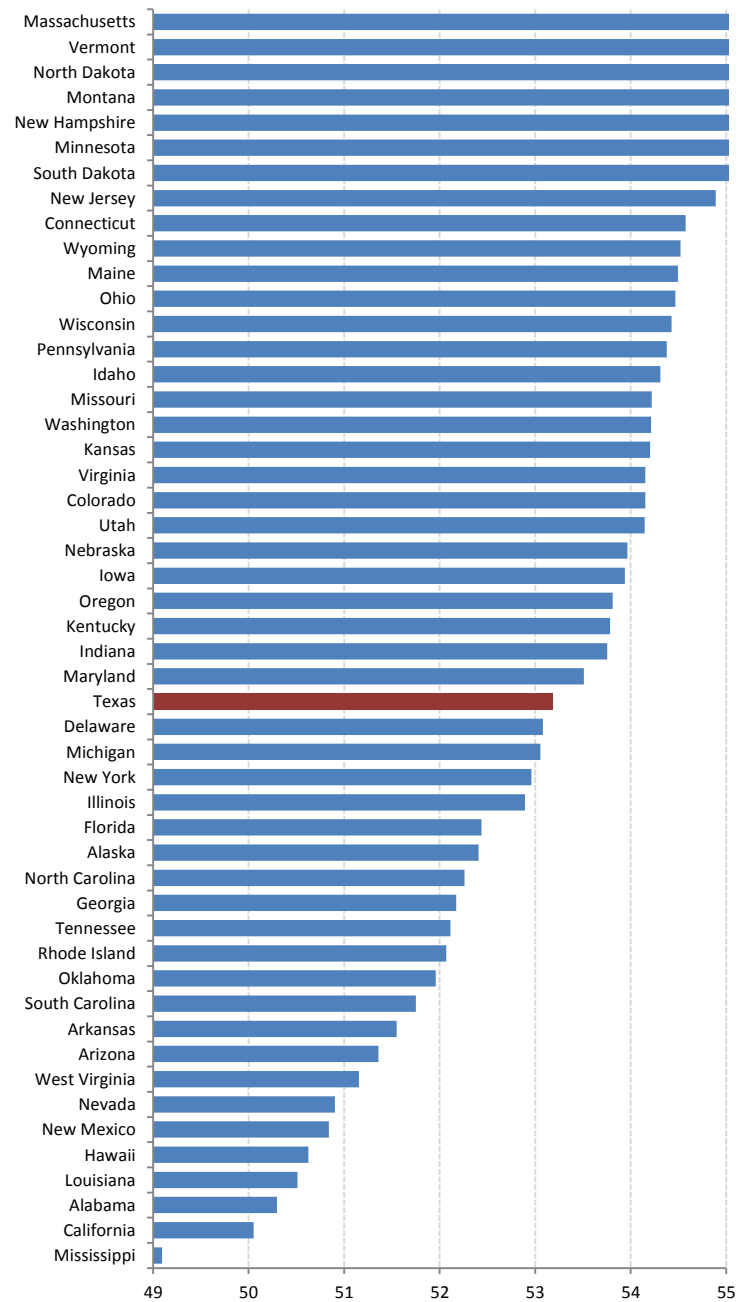
Eighth-Grade Test Score in Math, Reading, Science



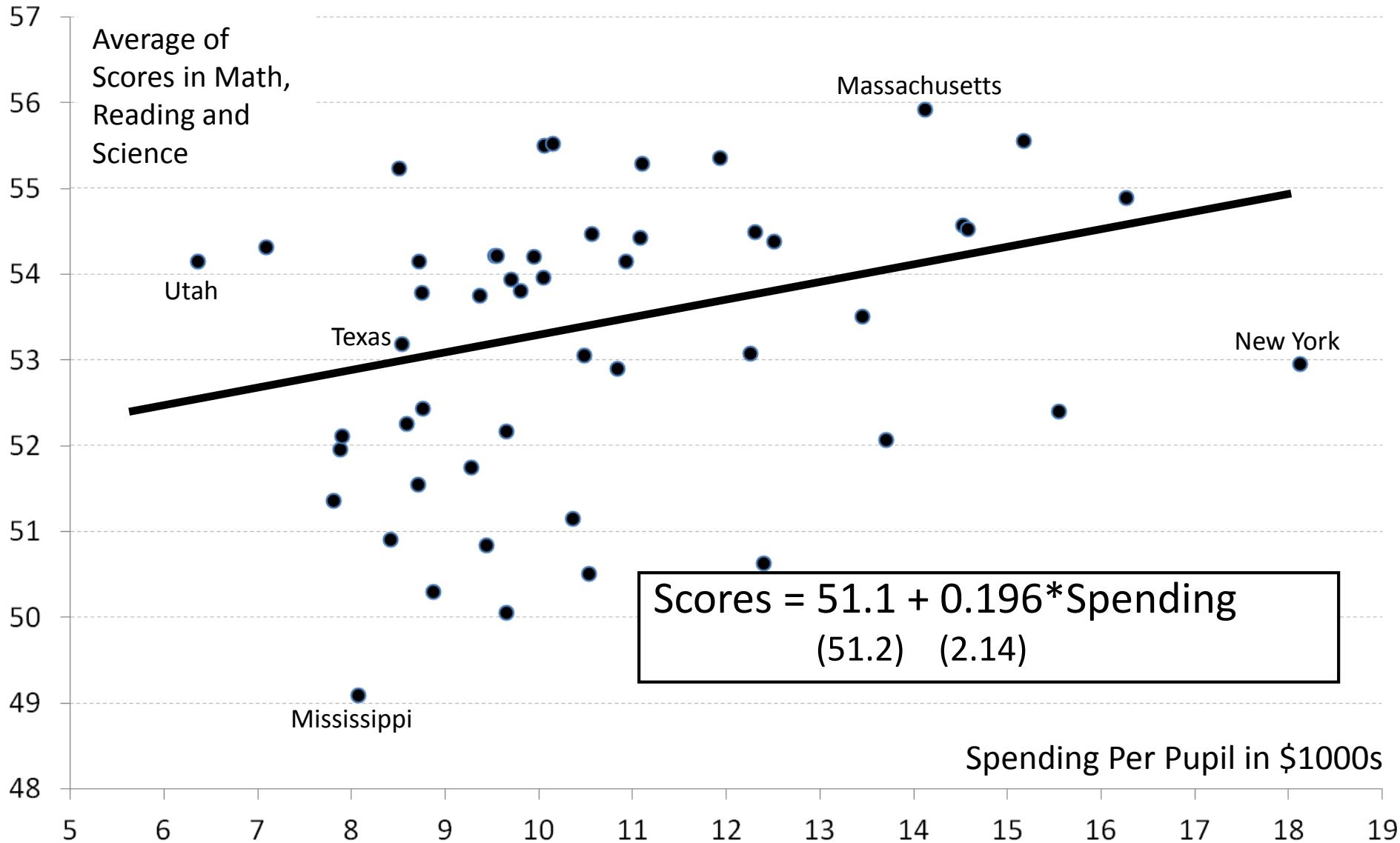
Spending Per Student

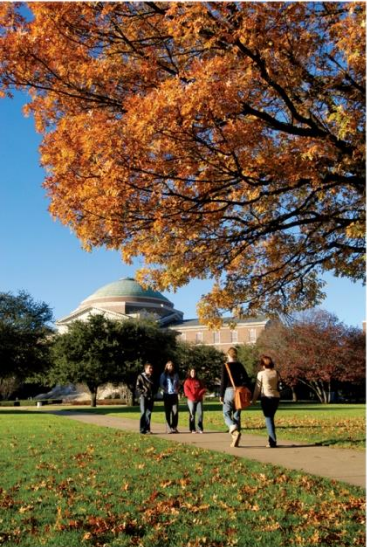


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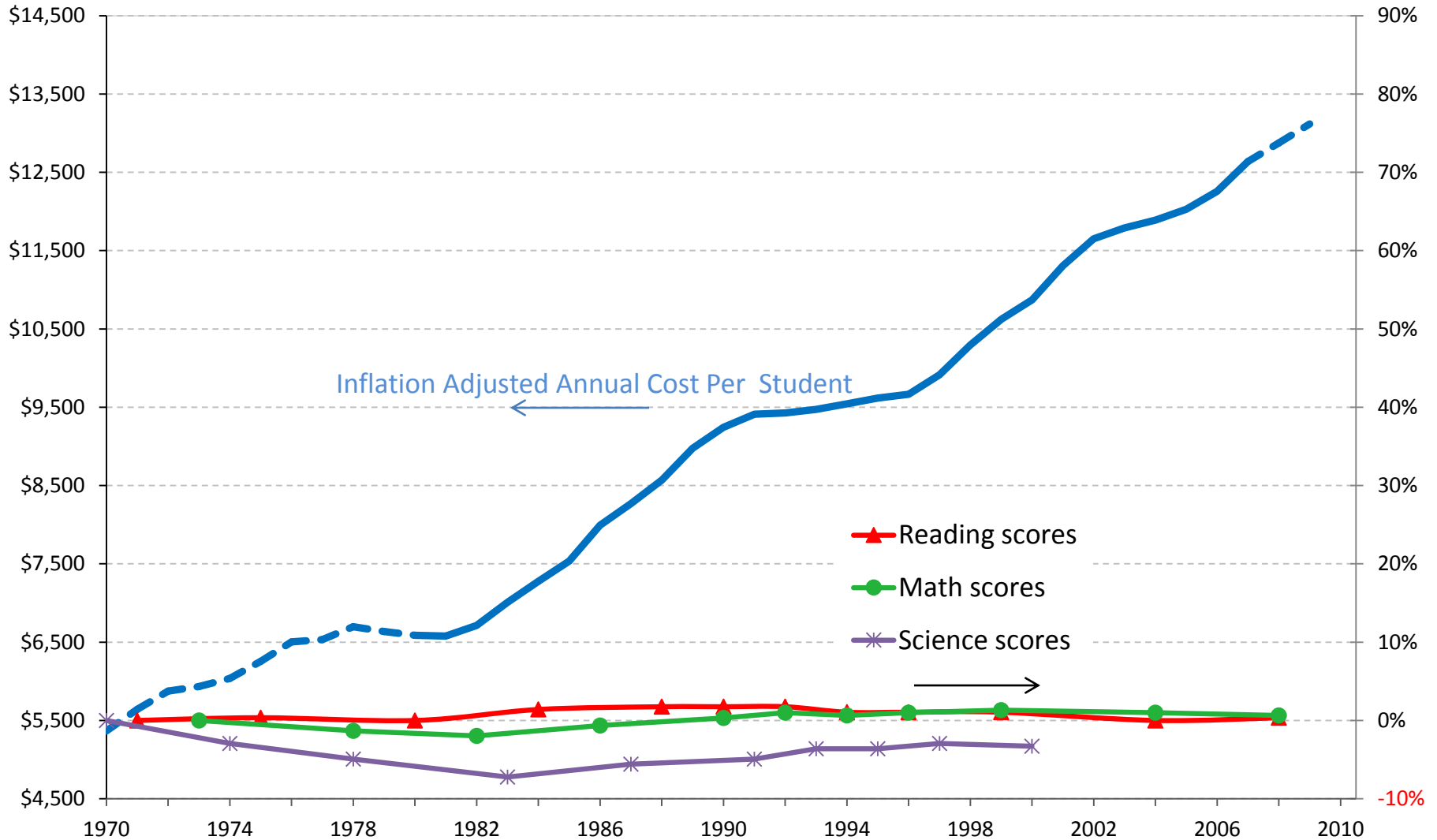
Do States that Spend More Have Better Schools?





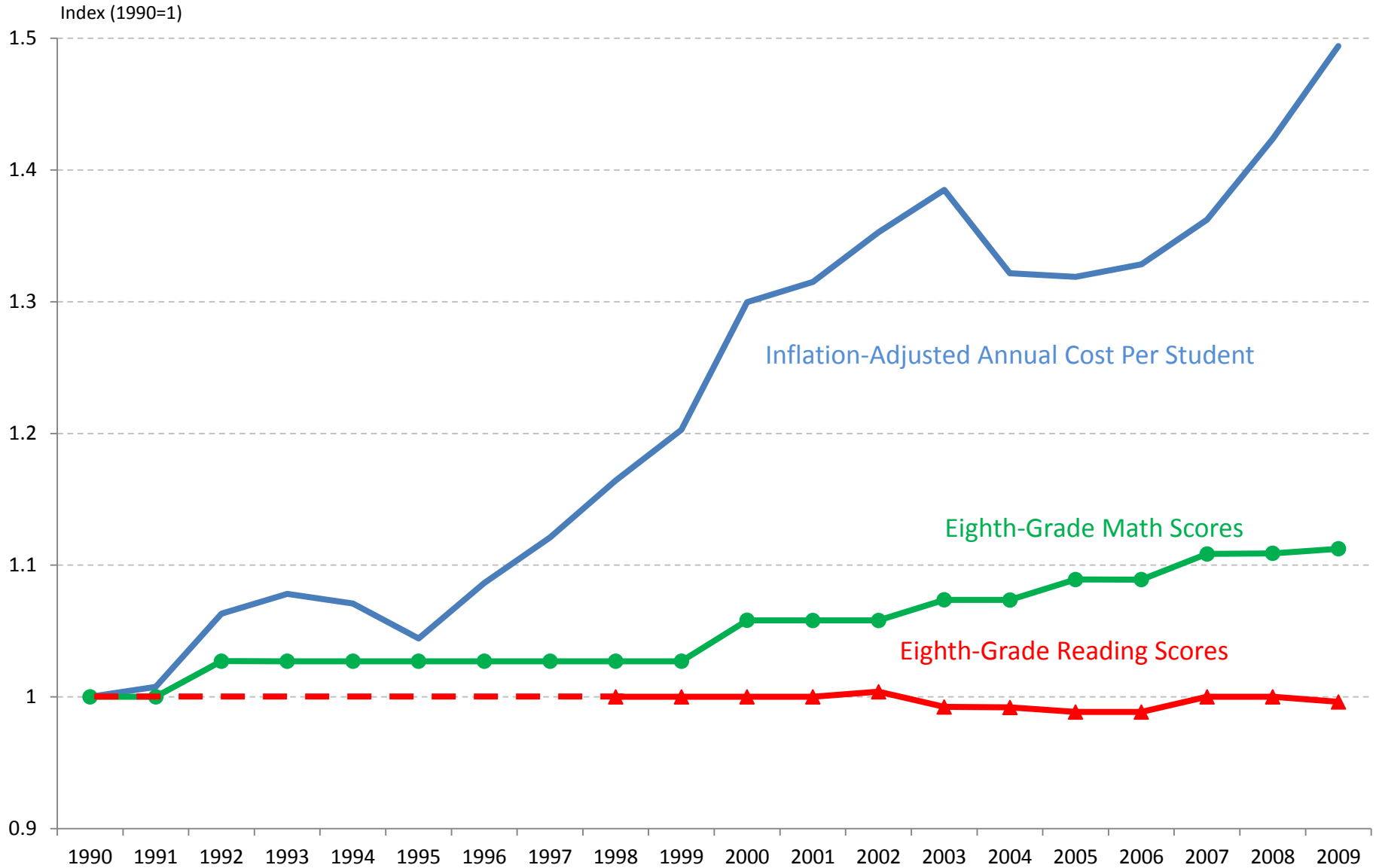
This would end a happy story
except for an inconvenient truth --
Spending more money hasn't
improved education.

U.S. Spending, Test Scores

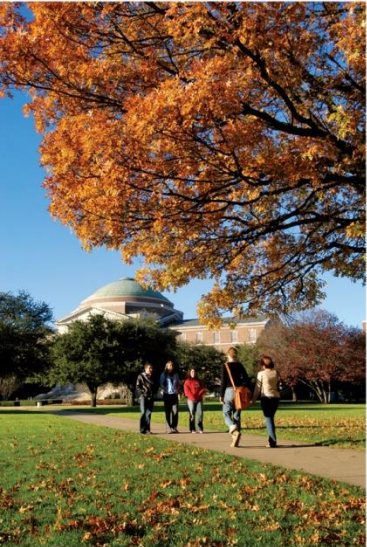


Source: Cato Institute

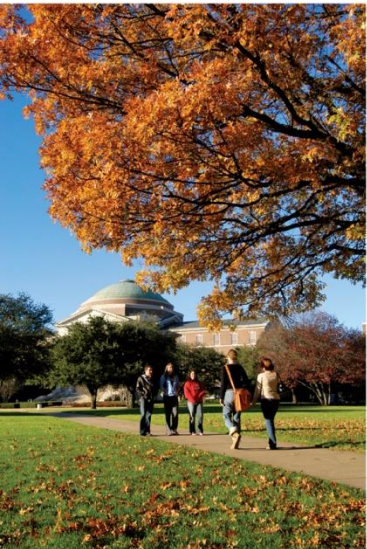
Texas Spending, Test Scores



Source: National Center for Educational Statistics



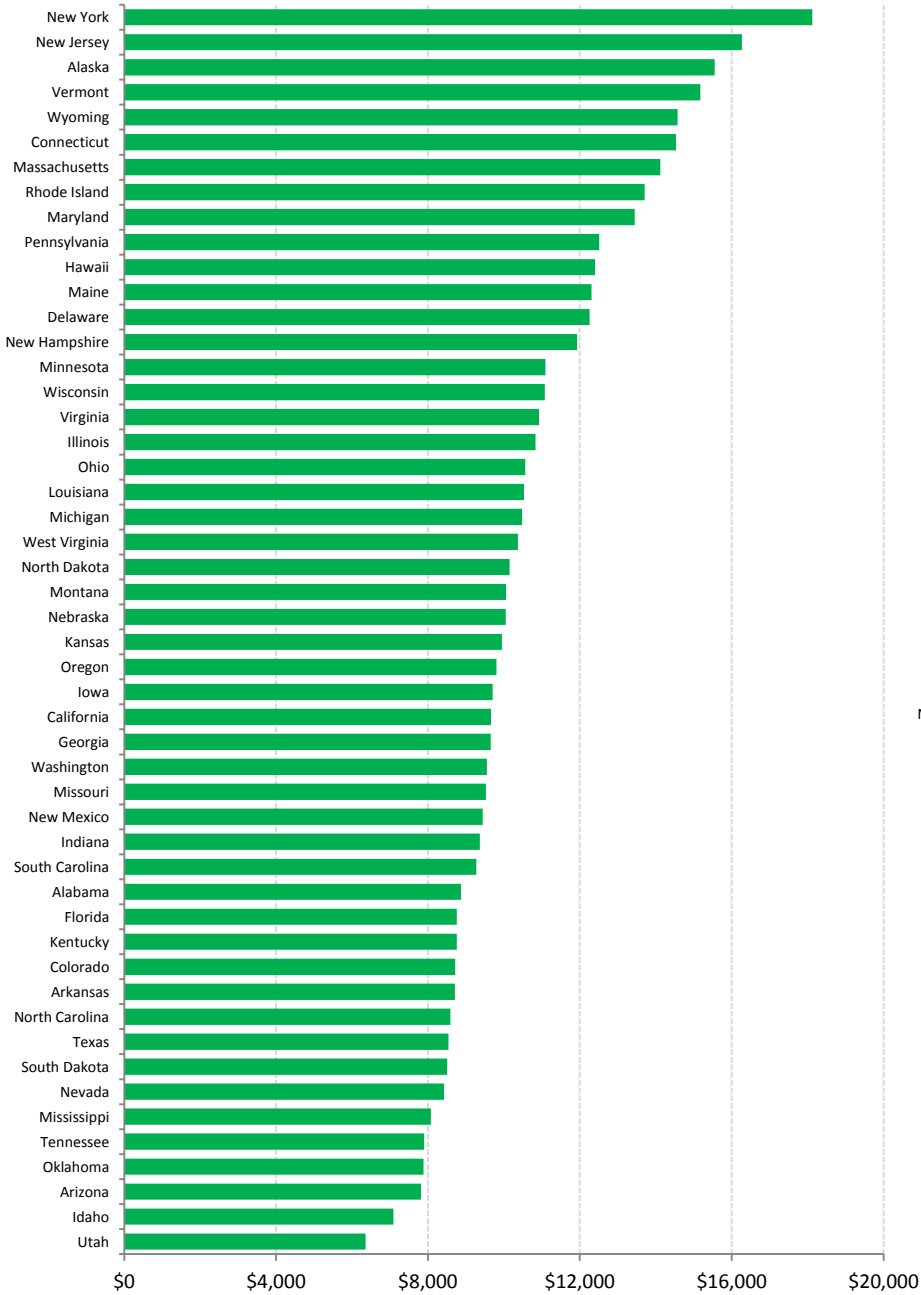
Fatal Flaws in How We Measure Spending, Student Performance:



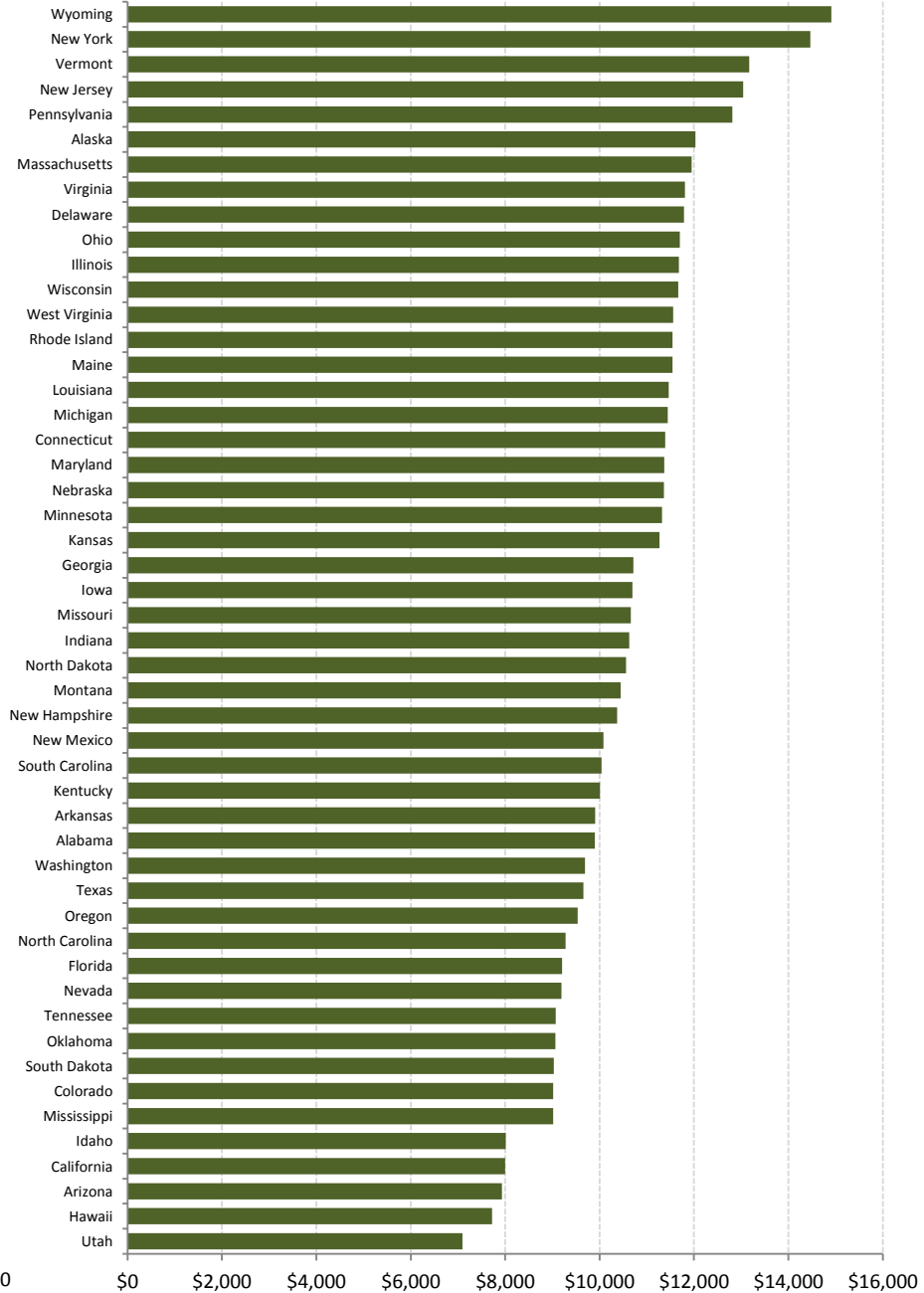
Flaws in Measurement of Spending, Student Performance:

→ Cost of Living Varies

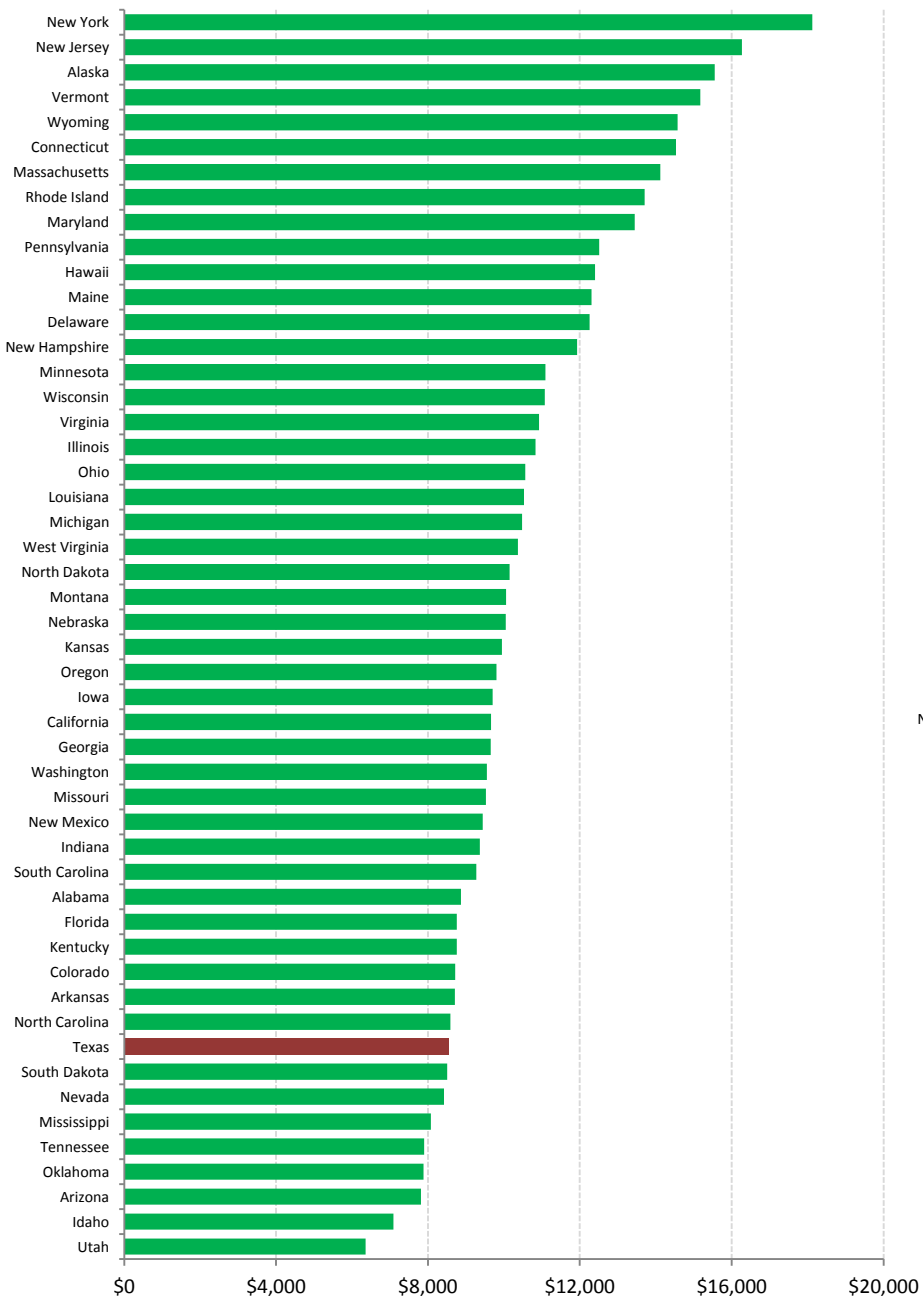
Actual Spending Per Student



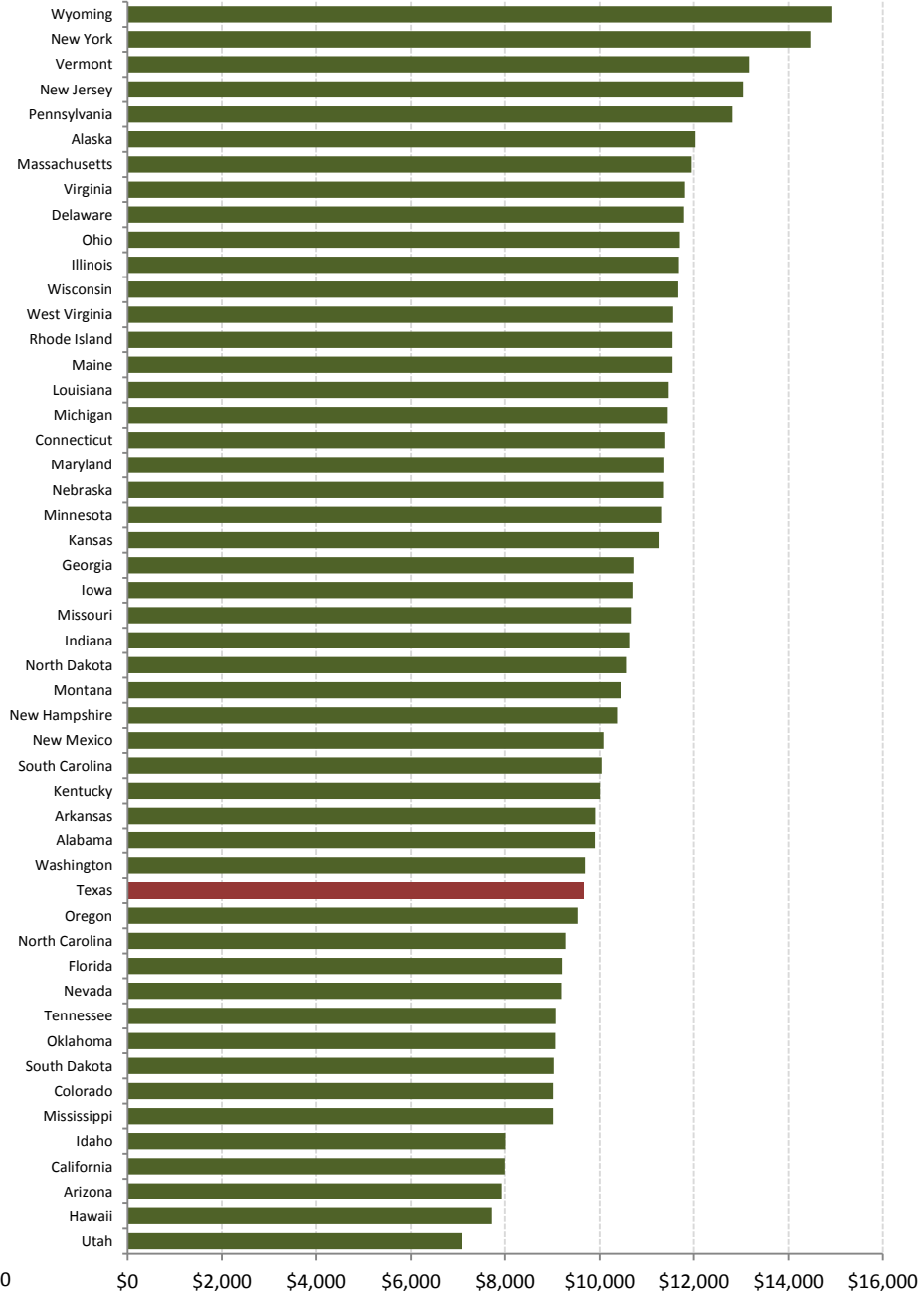
COLA-Adjusted Spending Per Student



Actual Spending Per Student

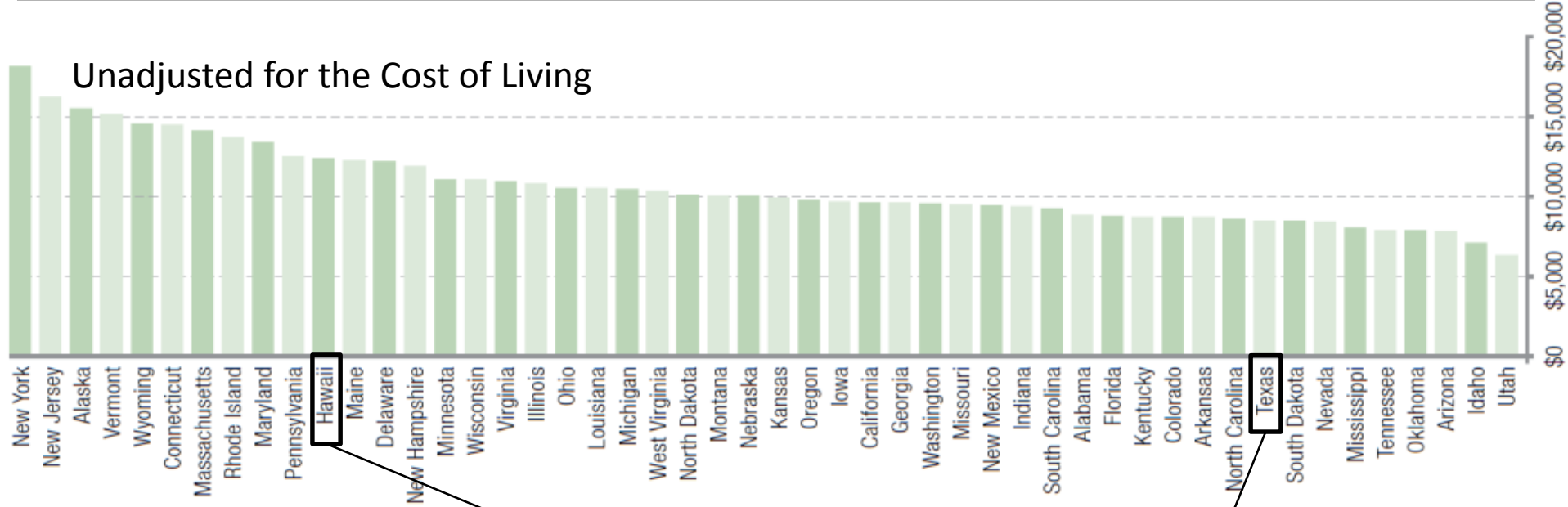


COLA-Adjusted Spending Per Student

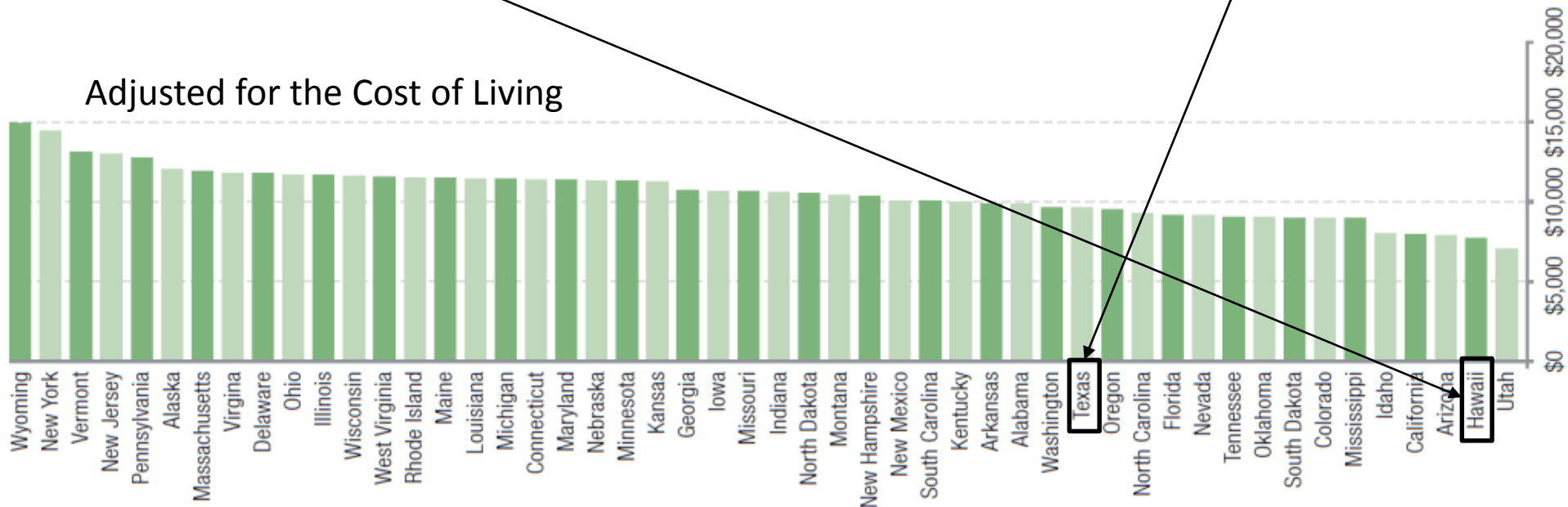


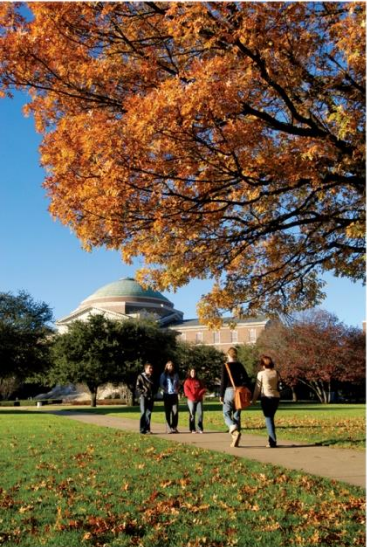
Fixing the Spending-per-Pupil Data

Unadjusted for the Cost of Living



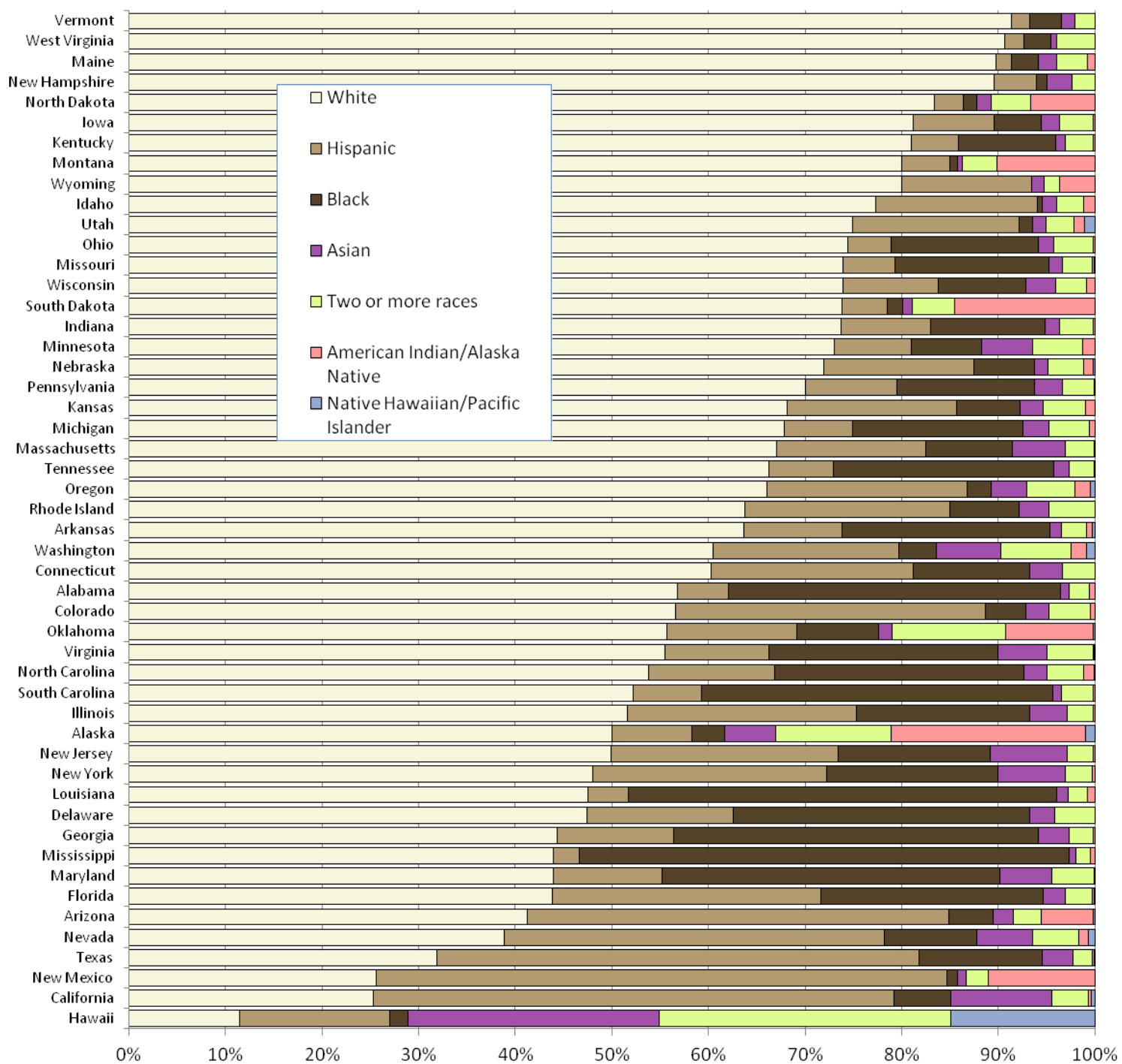
Adjusted for the Cost of Living

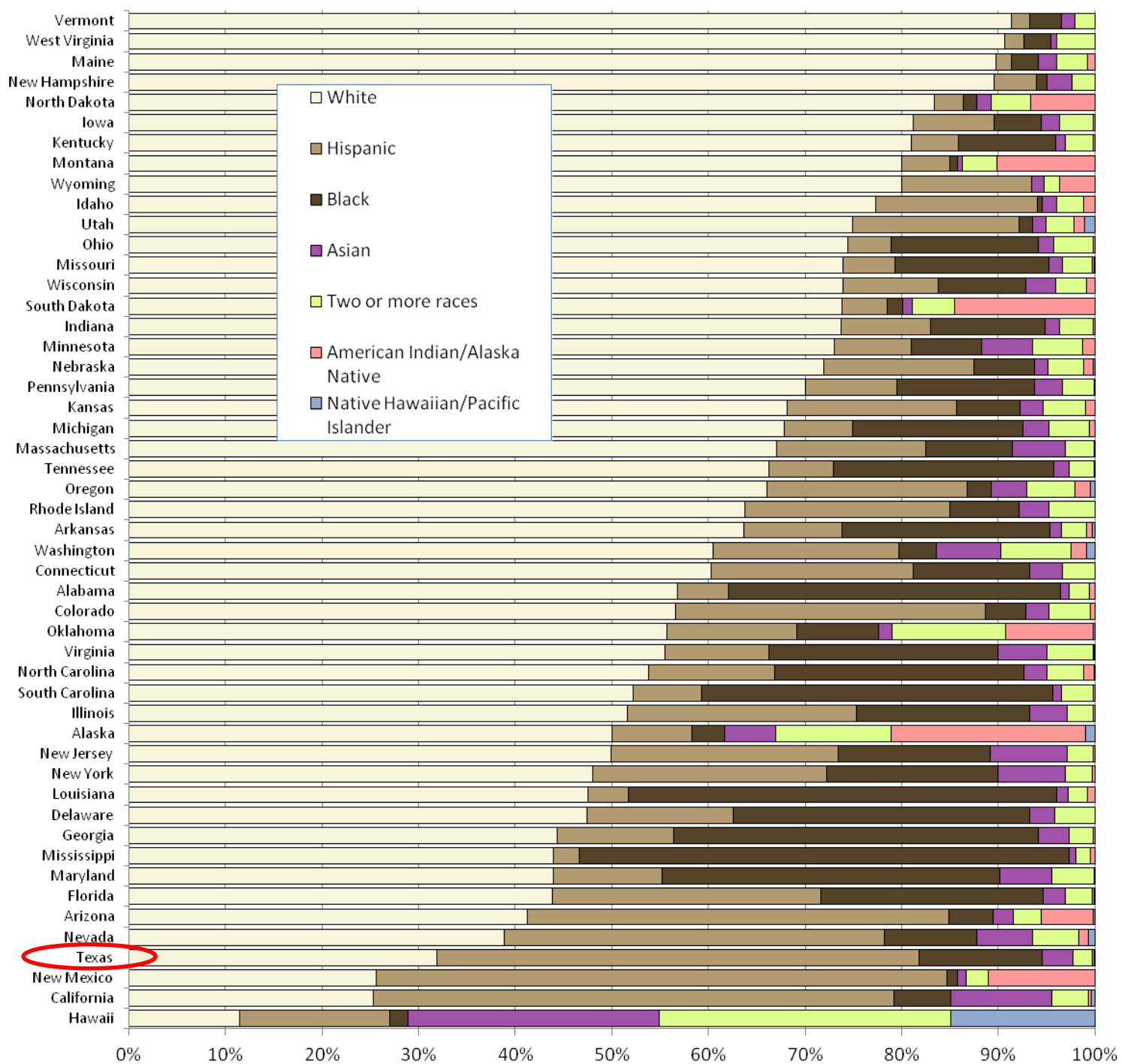


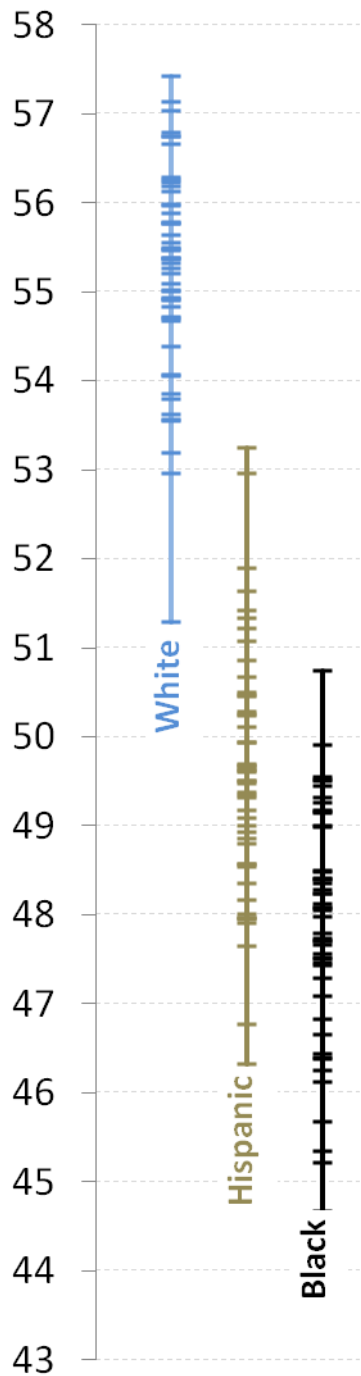


Flaws in Measurement of Spending, Student Performance:

- ➔ Cost of Living Varies
- ➔ Demographics Vary





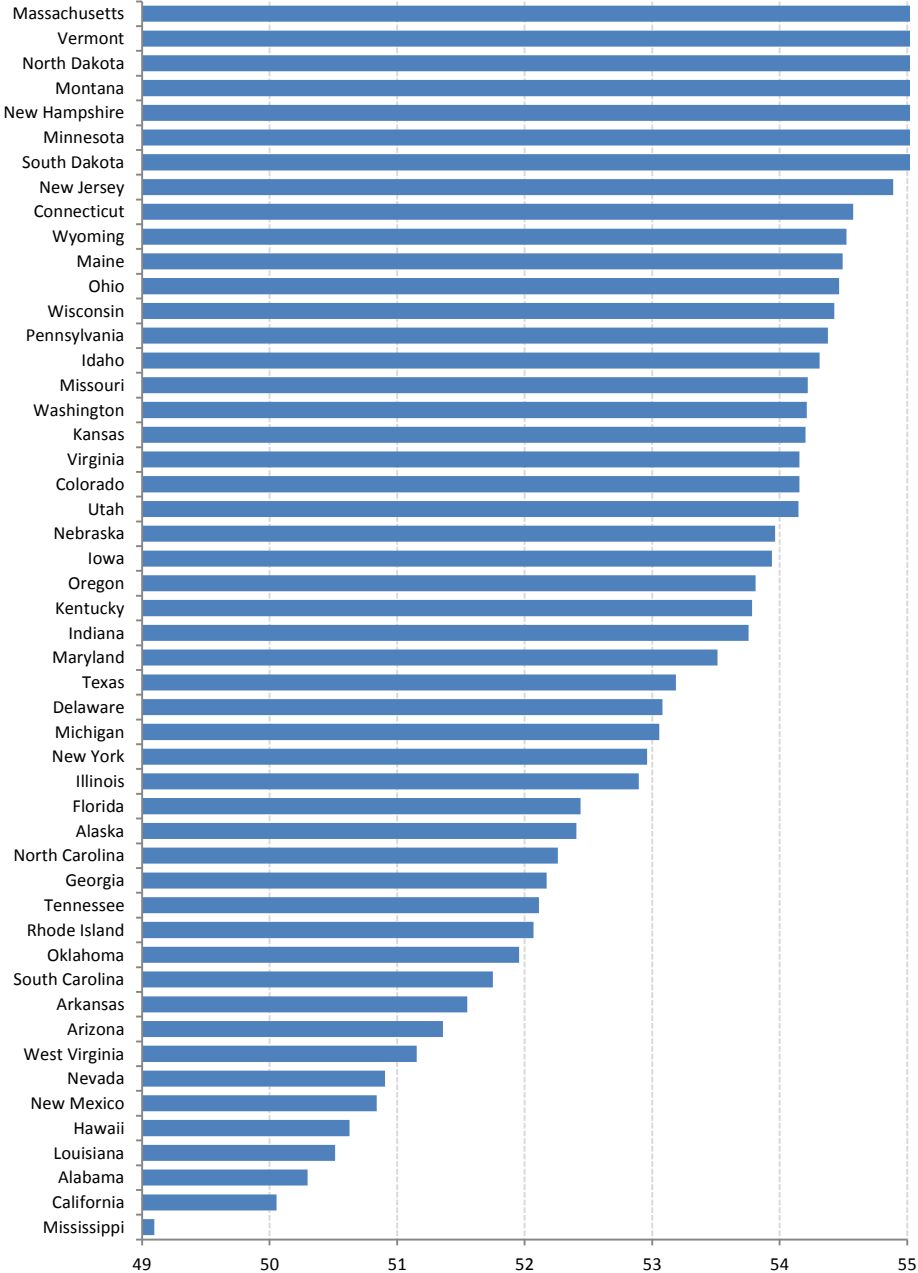


STUDENT POPULATION IN U.S. PUBLIC SCHOOLS

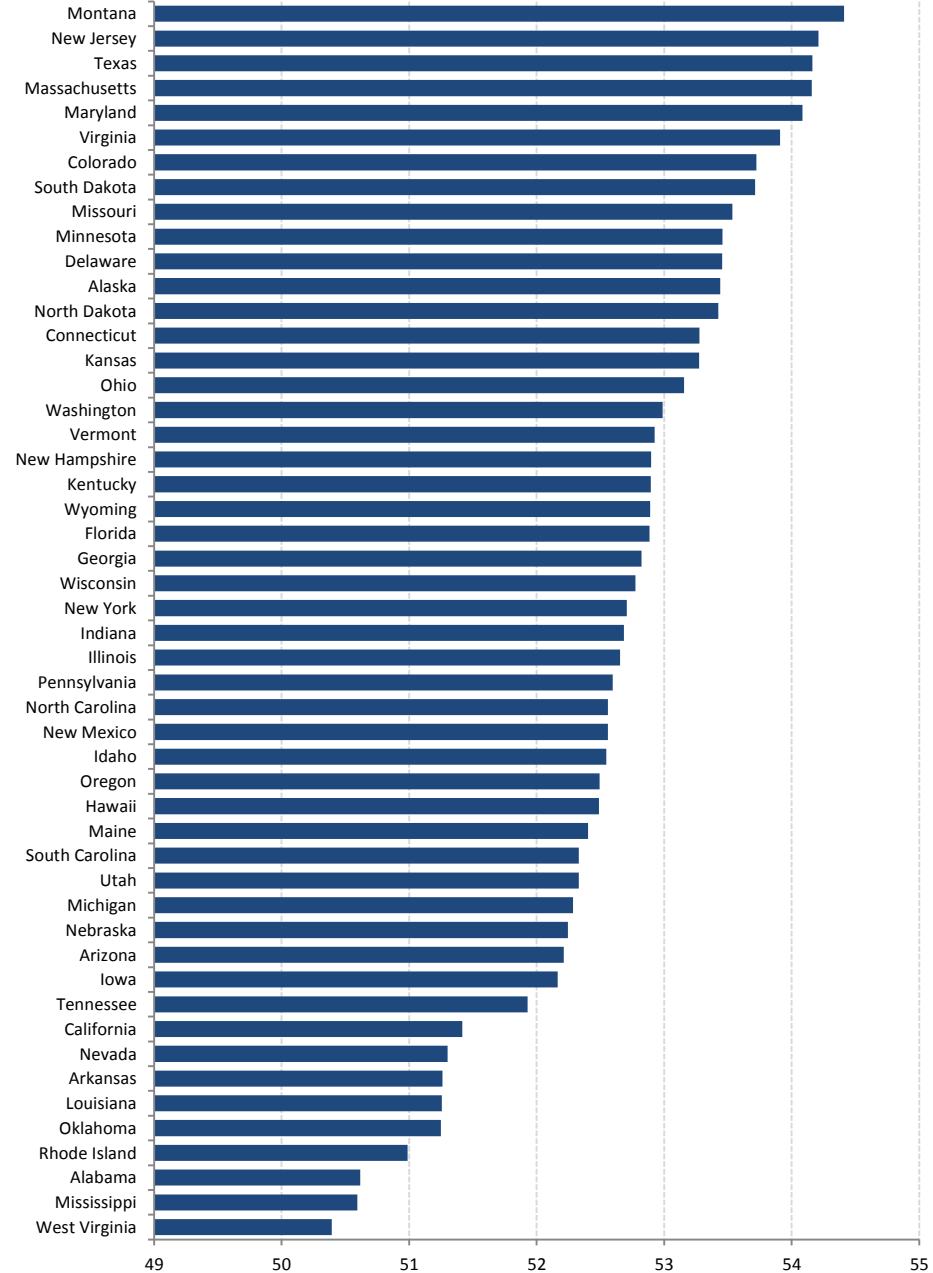
RACIAL OR ETHNIC GROUP	ACTUAL	ADJUSTED
WHITE	55.3	59.3
HISPANIC	21.4	23.0
BLACK	16.5	17.7
ASIAN/PACIFIC ISLANDER	5.0	0.0
AMERICAN INDIAN/ALASKAN NATIVE	1.2	0.0
TWO OR MORE RACES	0.6	0.0
TOTAL	100.0	100.0

Eighth-Grade Test Score in Math, Reading, Science

Varied Demographics

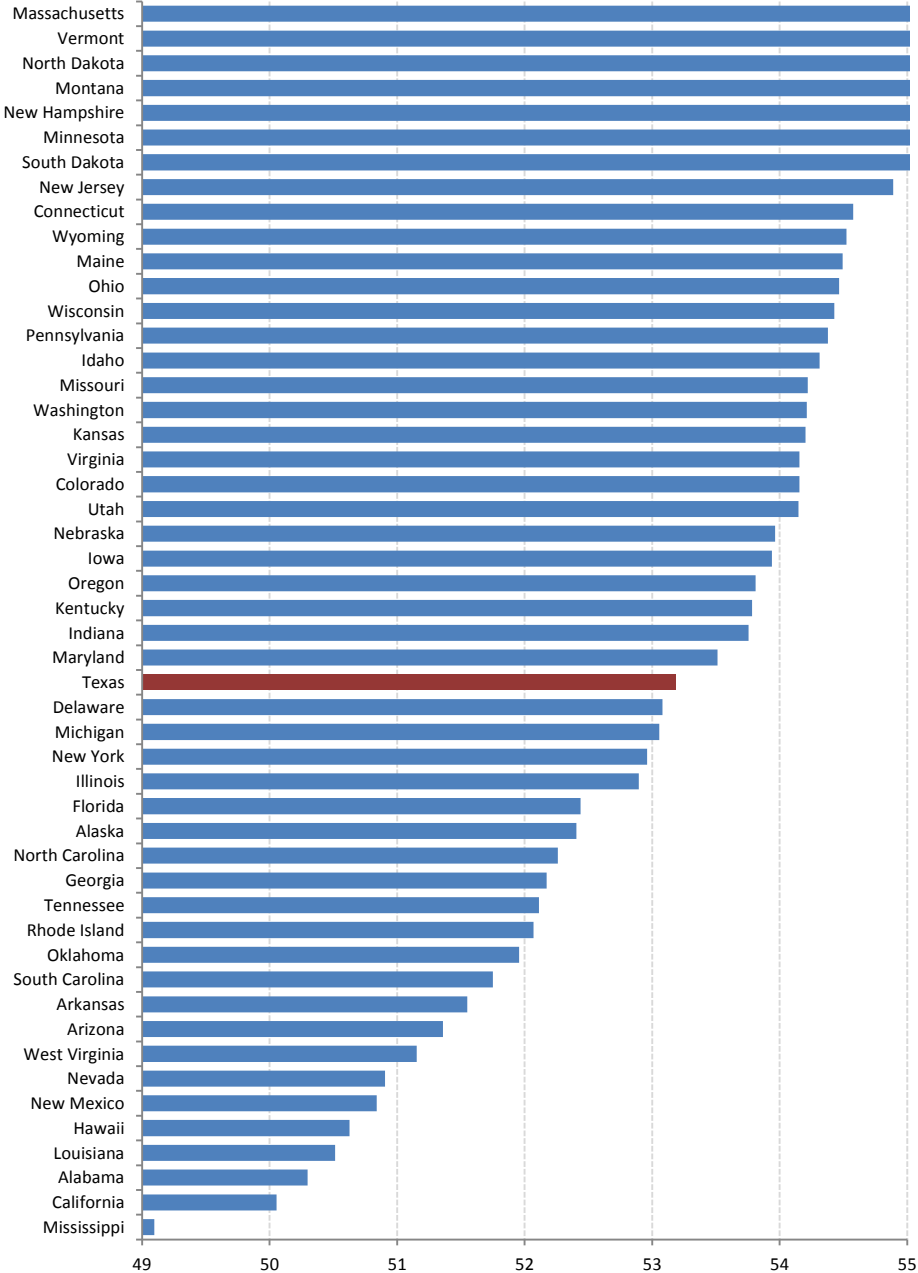


Constant Demographics

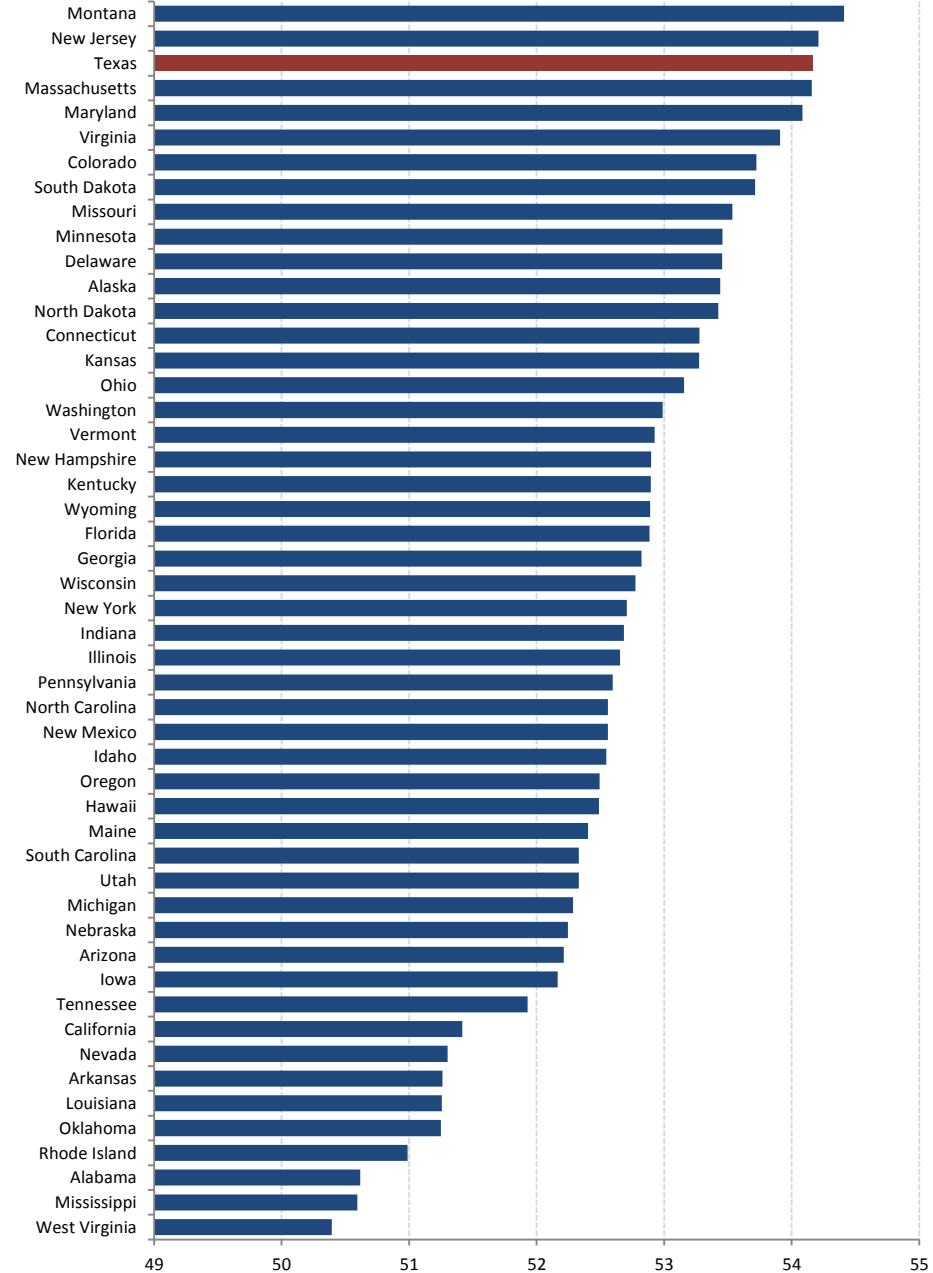


Eighth-Grade Test Score in Math, Reading, Science

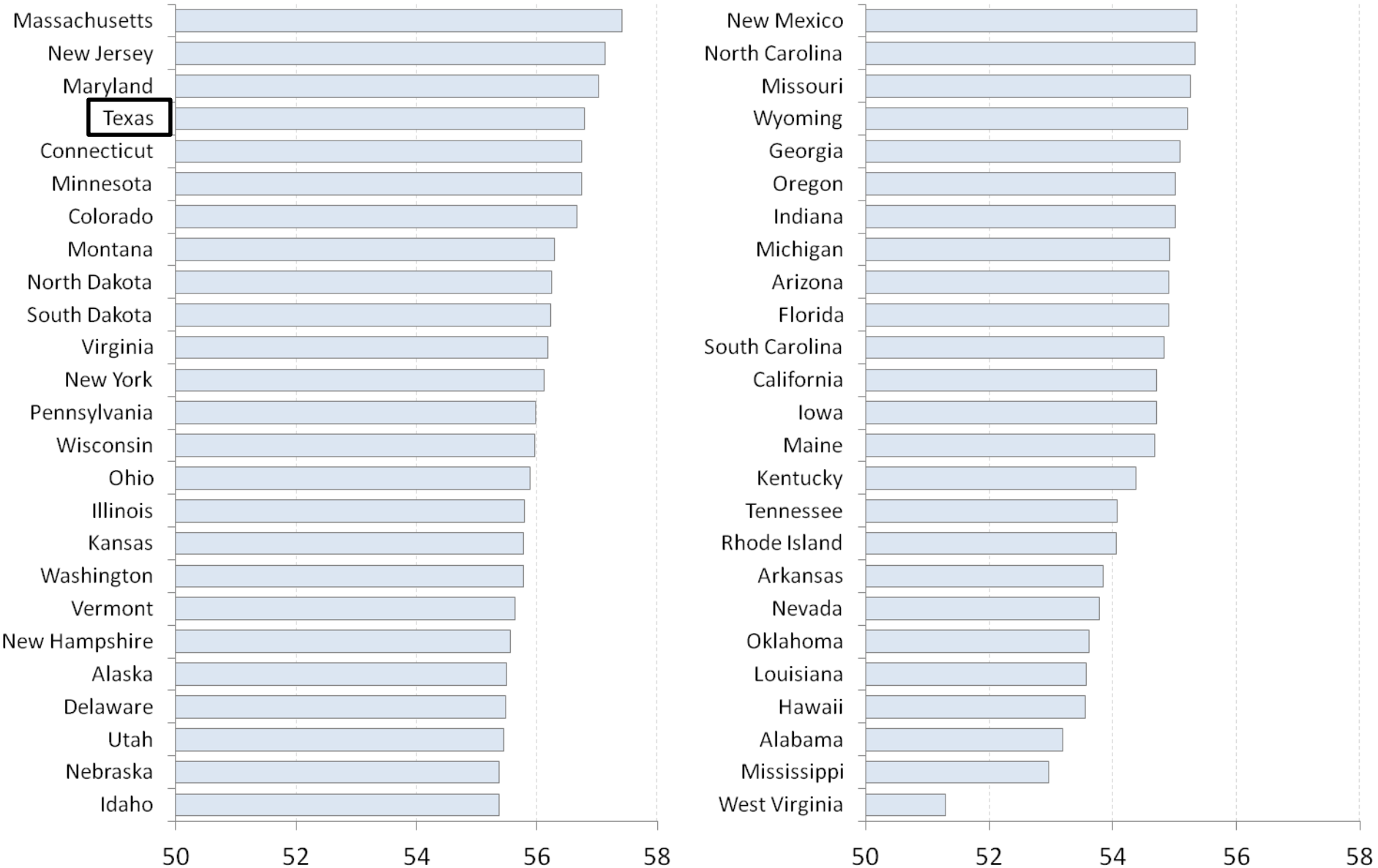
Varied Demographics



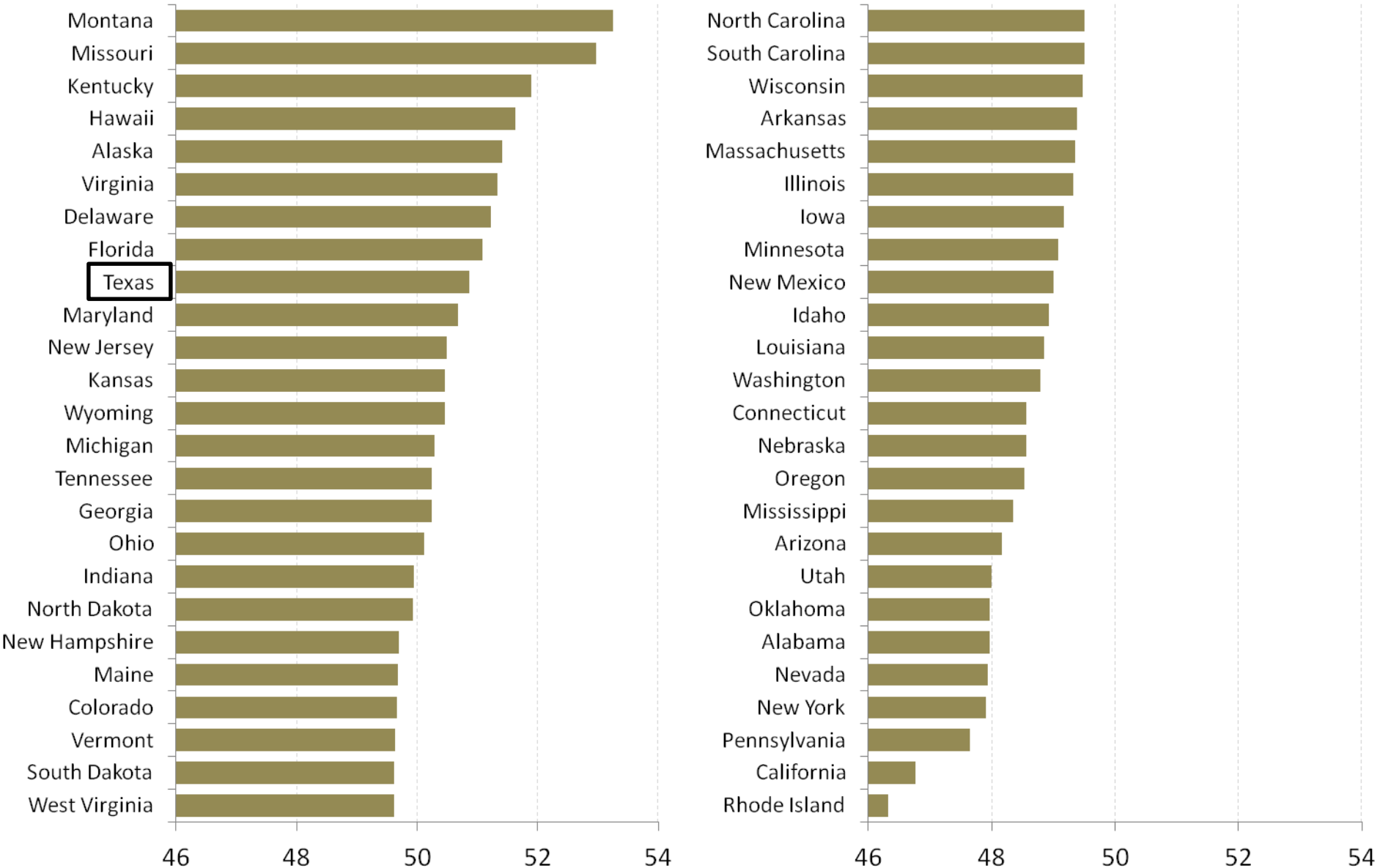
Constant Demographics



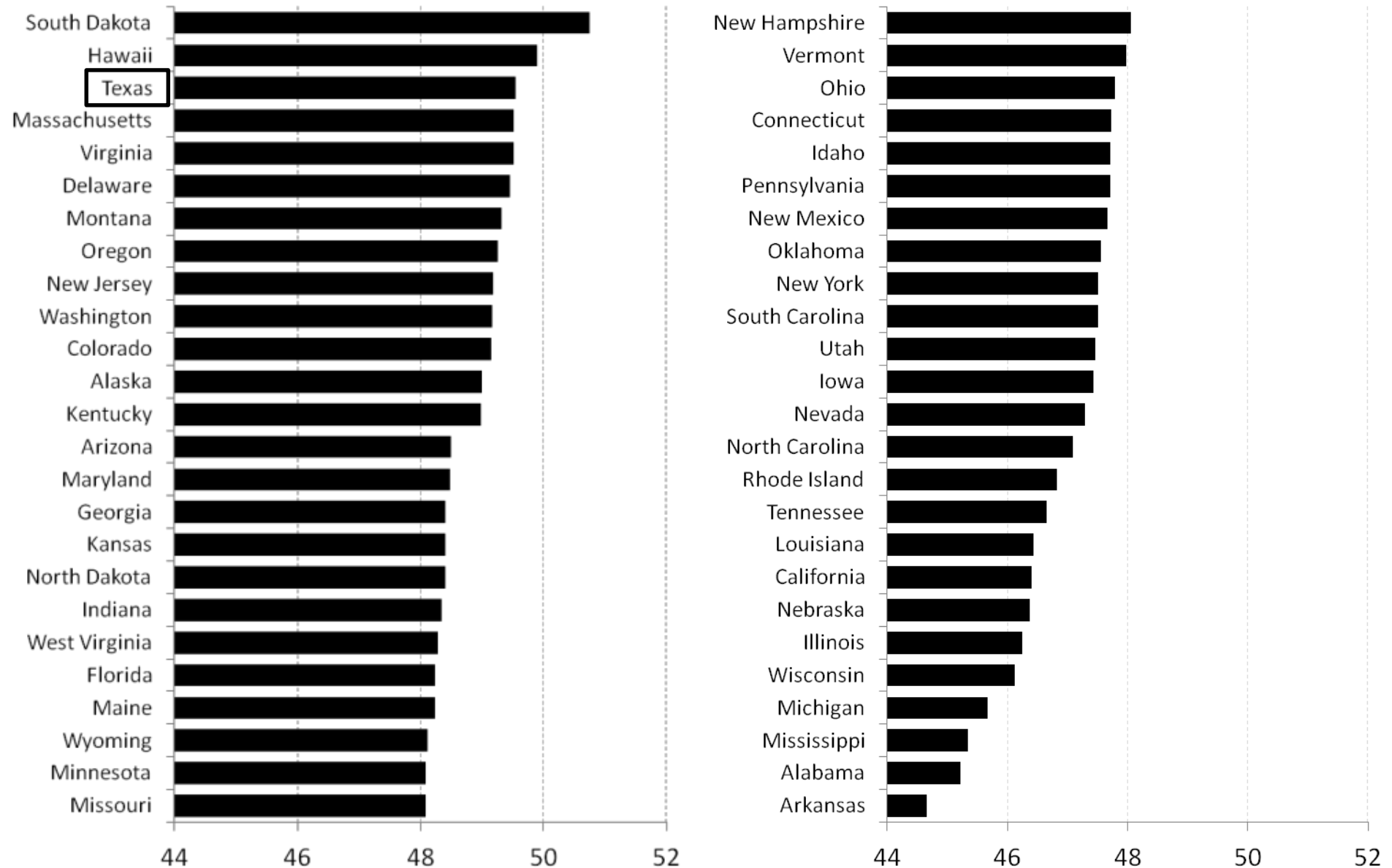
Average Scores of White 8th Grade Public School Students Across Math, Reading and Science

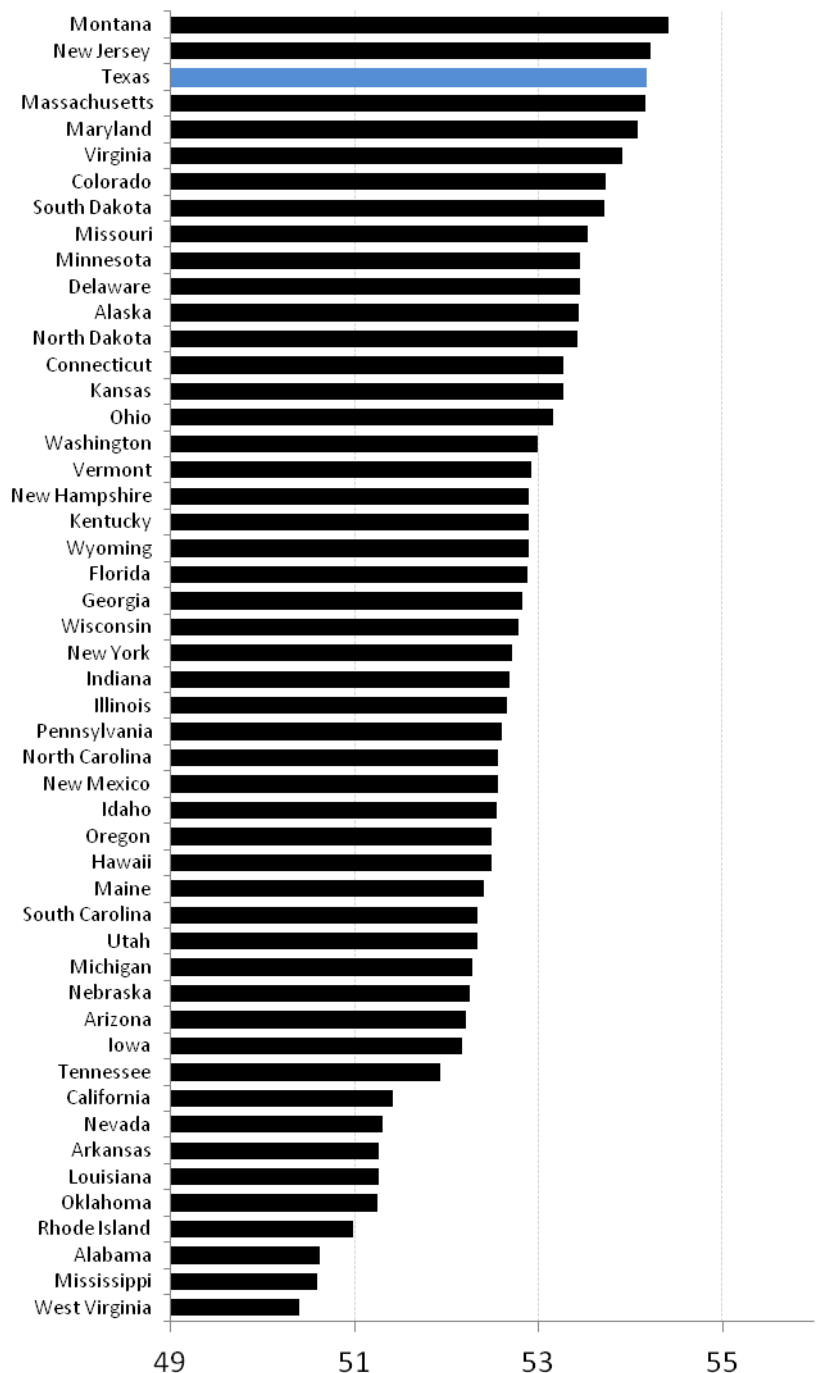
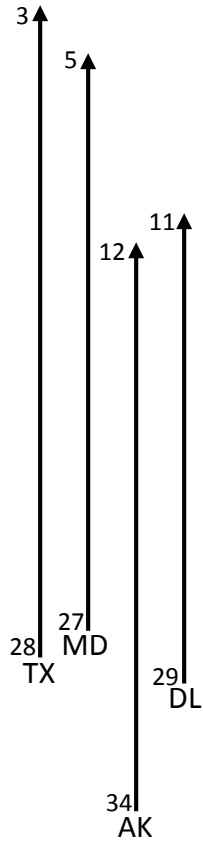
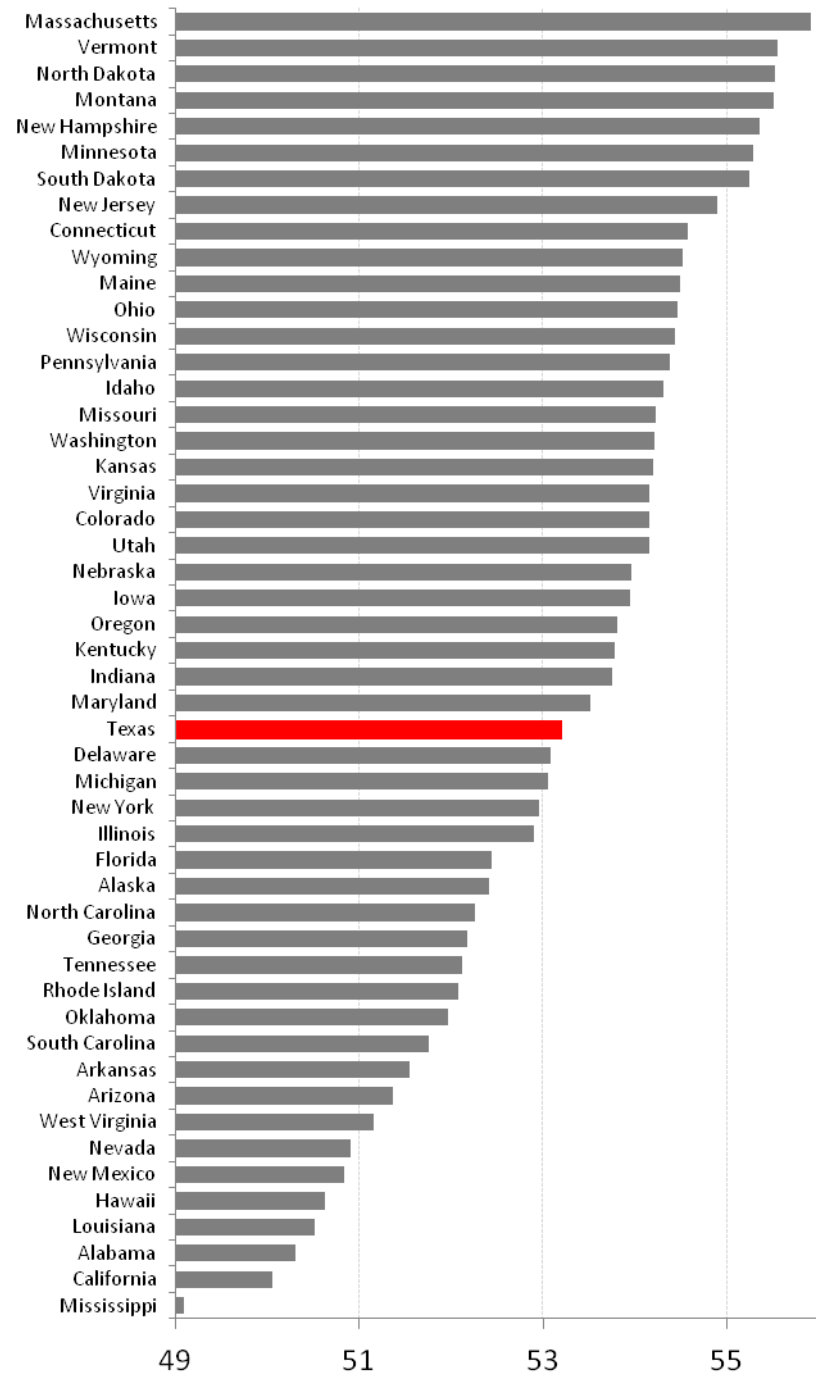


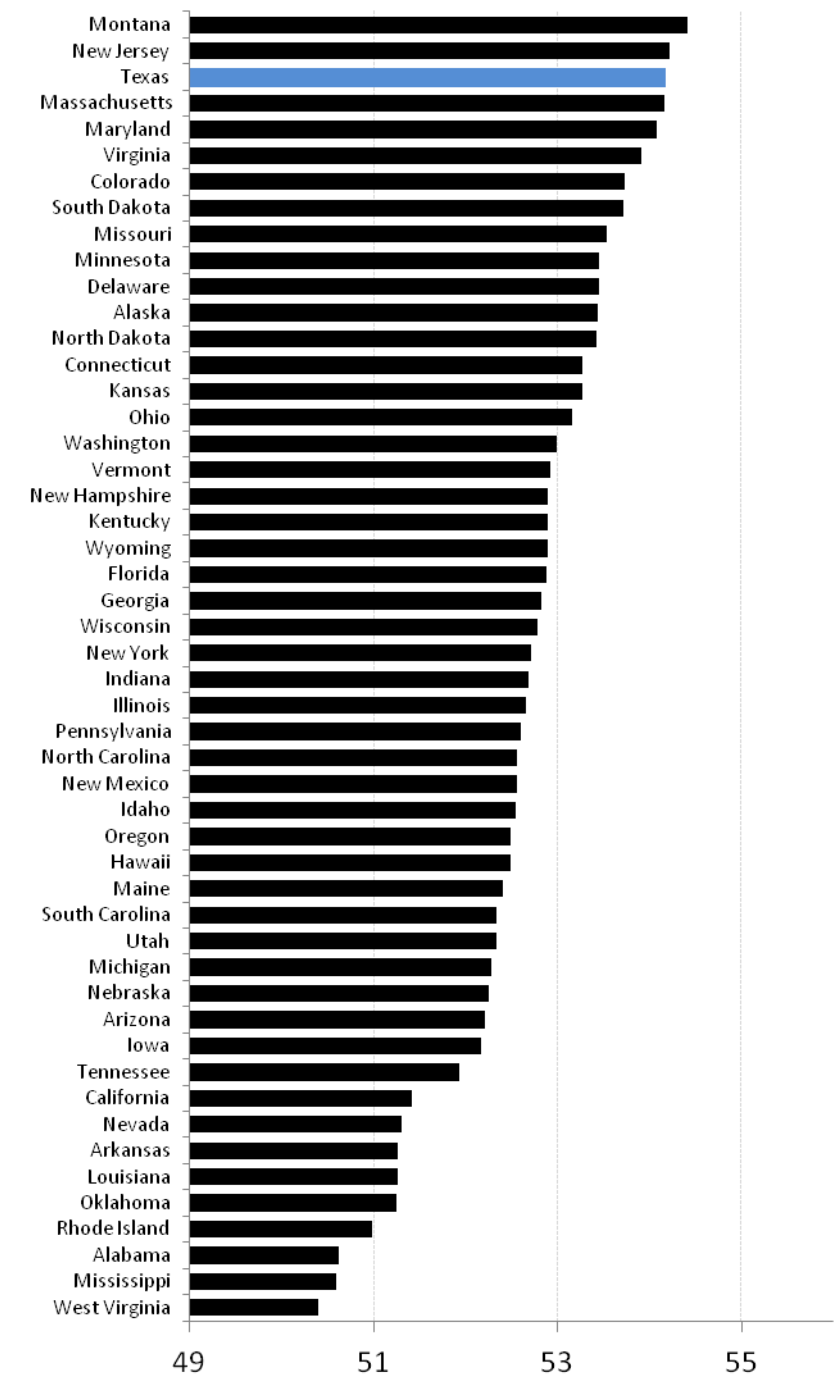
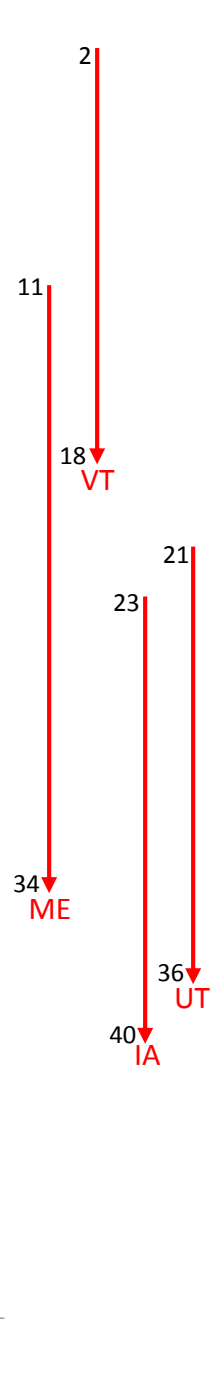
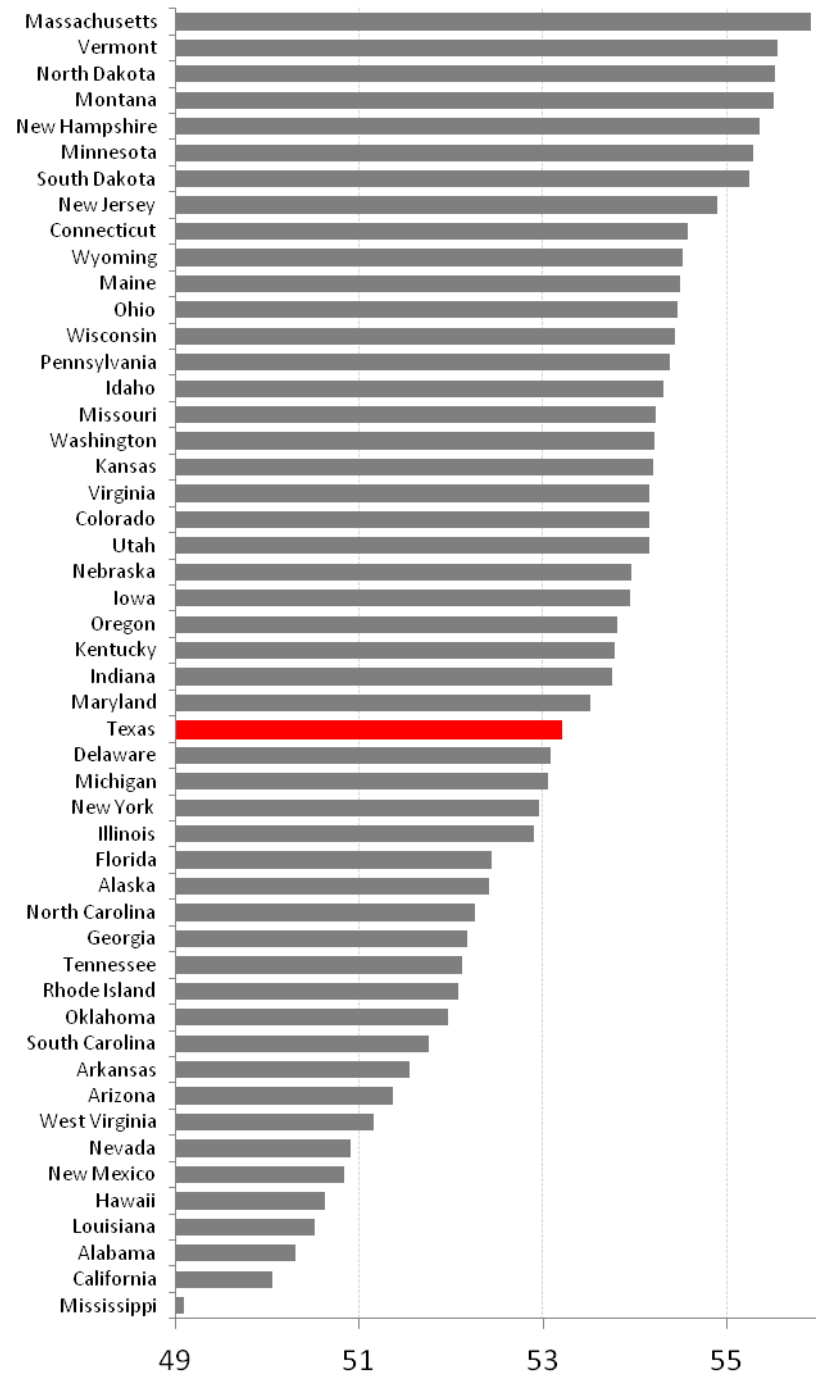
Average Scores of Hispanic 8th Grade Public School Students Across Math, Reading and Science

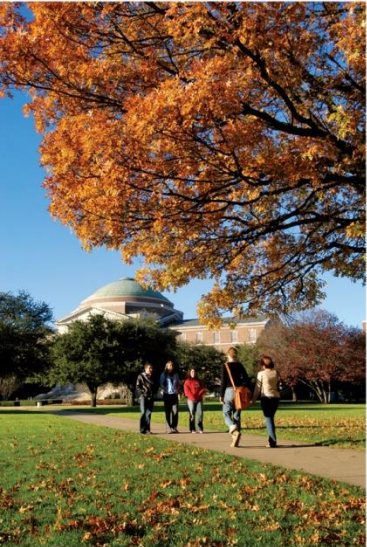


Average Scores of Black 8th Grade Public School Students Across Math, Reading and Science









If not money, what explains differences in test scores?



If not money, what explains differences in test scores?

In a word, parents.

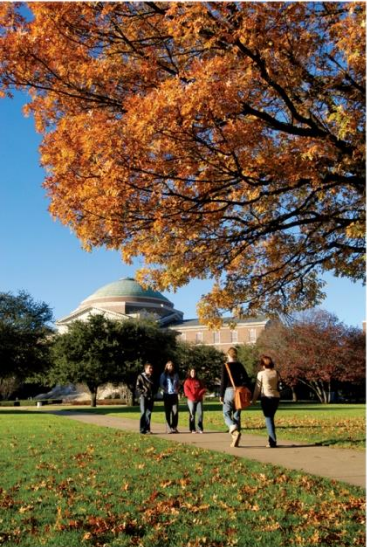
What the Data Says

Spent inside a **public** school system, more money does not improve students' scores. The education and income of the children's parents matter for scores, but not school spending.

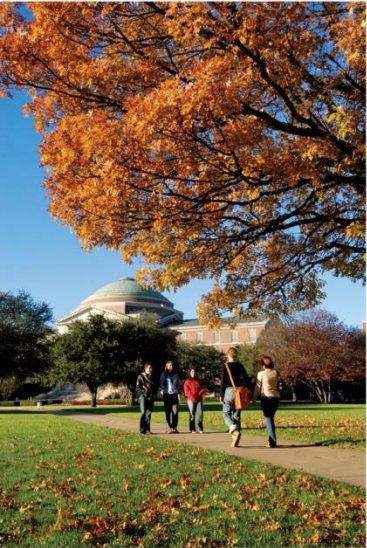
<i>Explanatory Variable</i>	<i>Coefficients</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	47.04	40.10	1.96E-37
COLA Income of Parents	0.060	1.96	0.05567
Education of Parents	0.115	4.76	1.98E-05
COLA Expenditures per Pupil	0.018	0.25	0.807013

School spending variable is statistically insignificant

<i>Explanatory Variable</i>	<i>Coefficients</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	47.10	41.57	1.01E-38
COLA Income of Parents	0.063	2.20	0.032456
Education of Parents	0.116	4.92	1.09E-05



If not money, what will improve
America's schools?



If not money, what will improve
America's schools?

In two words, choice and
competition.

How You Get More Money: Public vs. Private Sector

Public vs. private—how do the two systems allocate resources to suppliers?

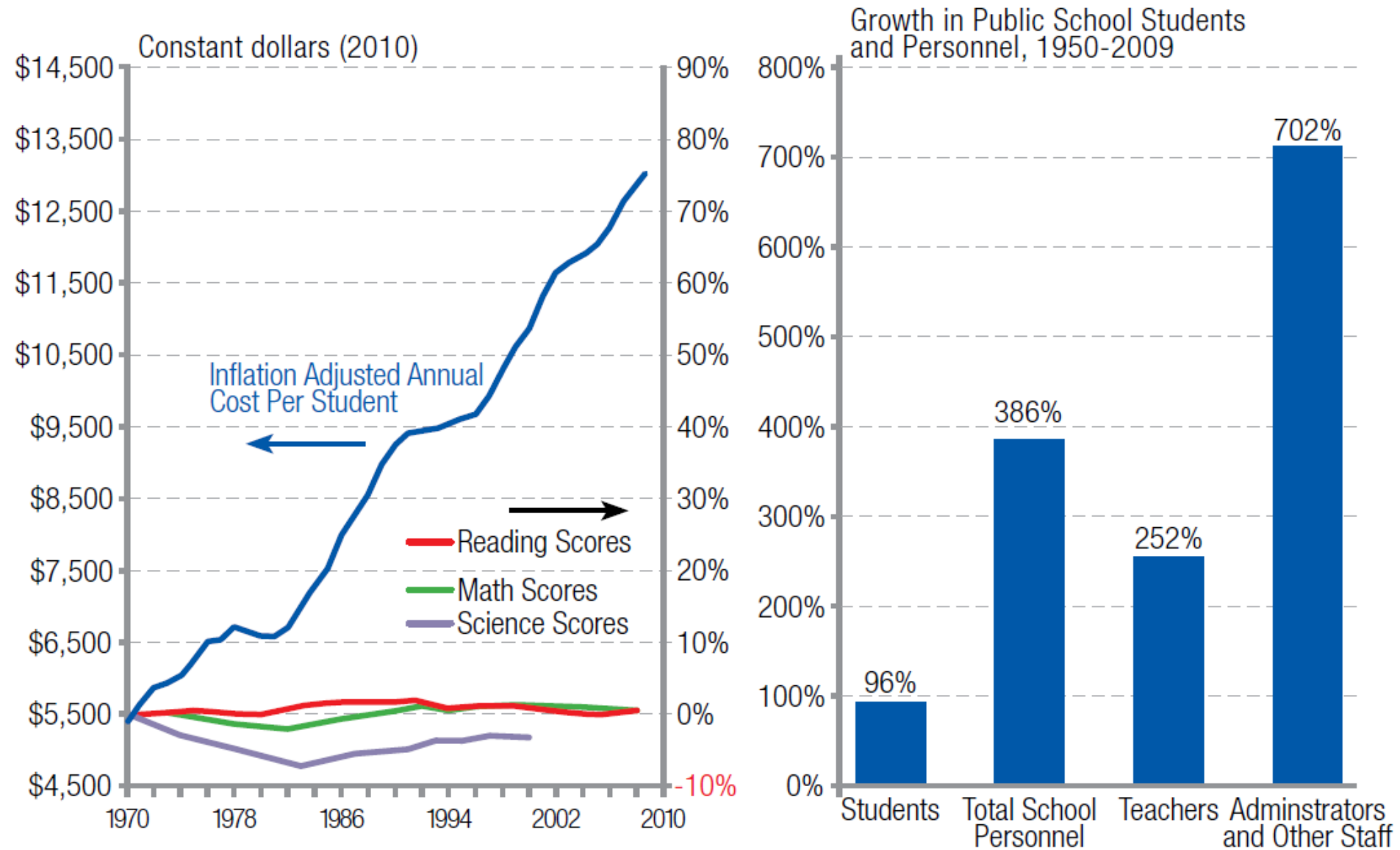
In a market-based (**private**) system, those who provide a quality product at a good price gain customers and resources. Those who don't, fail. The economy's resources and production are constantly reorganized to deliver ever-higher quality at an ever-lower price.

How You Get More Money: Public vs. Private Sector

Public vs. private—how do the two systems allocate resources to suppliers?

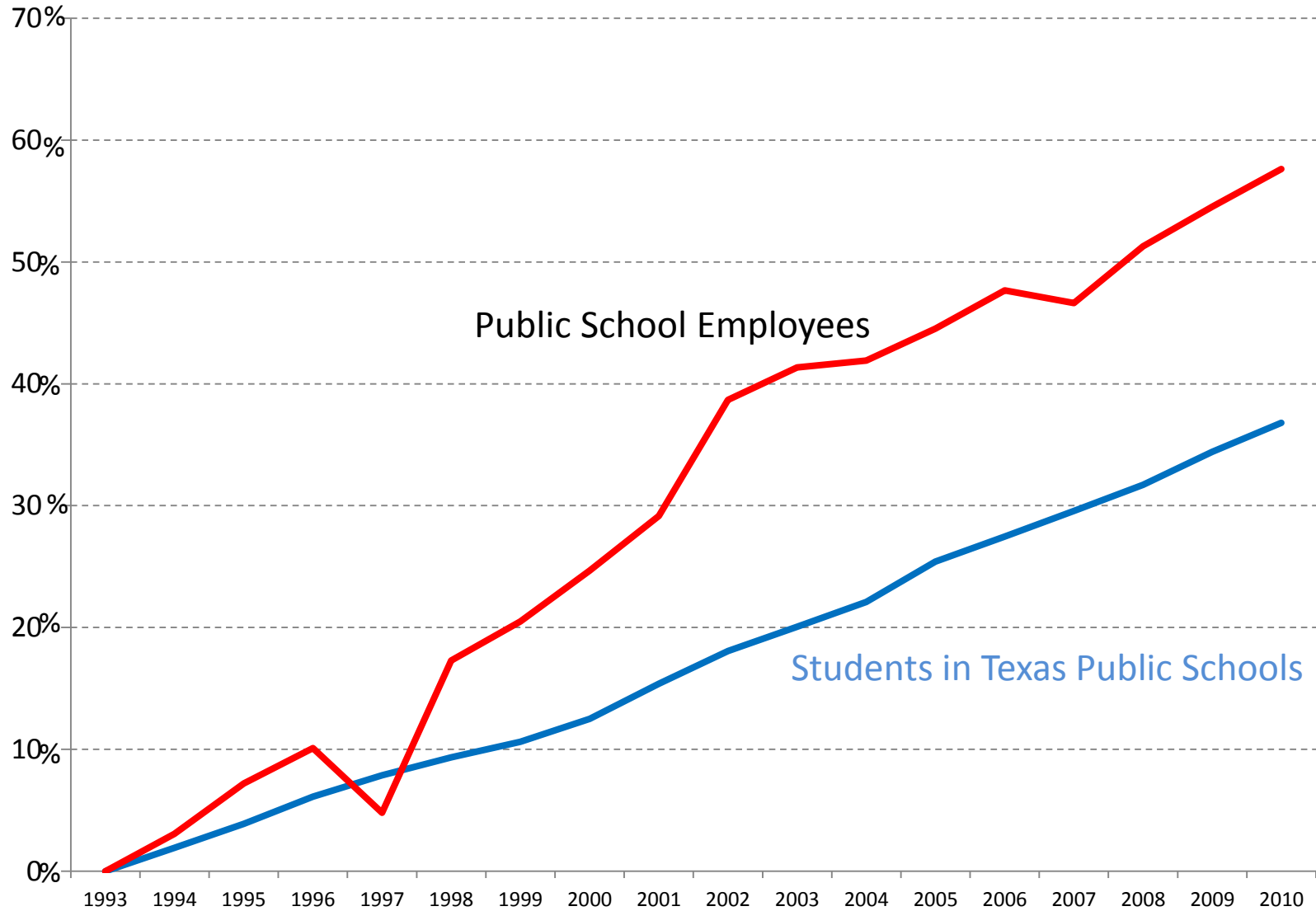
In the **public** sector, government doles out resources to those who “need” them. “**Need**” is determined on the basis of performance. If your school is underperforming relative to average, then you are tagged as needing more resources, and vice versa. Resources are thus constantly reshuffled to subsidize *ever-lower* quality at an ever-higher price.

More Spending = Lower Scores + Bigger Bureaucracy



Texas School Jobs, Enrollment

Annual Change



Source: National Center for Educational Statistics



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Texas Public Policy Foundation

Austin, Texas

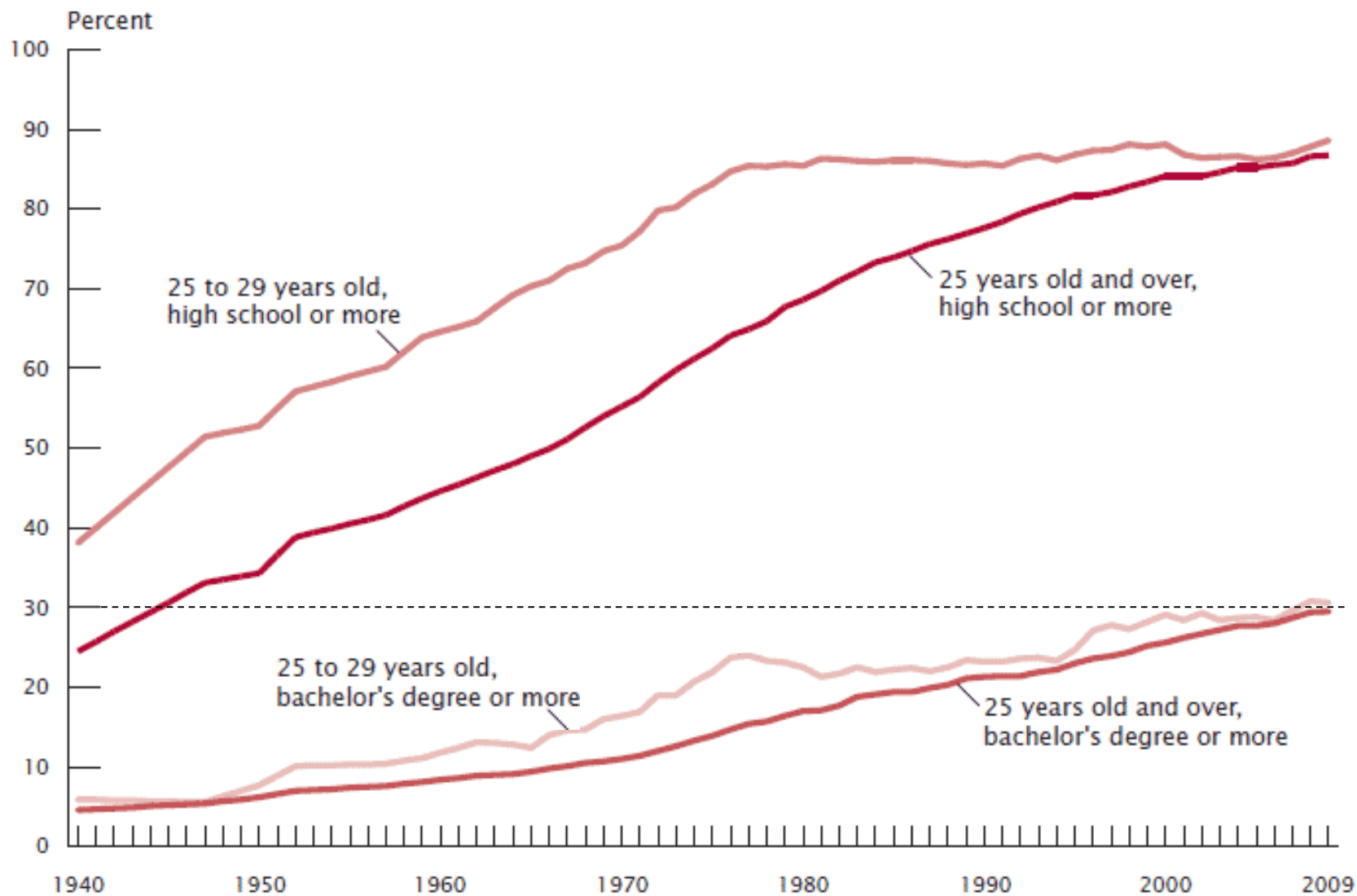
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Figure 1.
Percentage of the Population 25 Years and Over Who Have Completed High School or College: Selected Years 1940–2009



Source: U.S. Census Bureau, Current Population Survey and decennial censuses.

The Masses Don't Go on to Higher Education

