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The Economic History of School Finance in the United States

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THE long view of educational finance must take account of a duality in the nature of educational services: they are both private and public goods. As a private good, education is purchased by families that have children to bring up. In the United States, middle–class families exercise choice—and choice, be it noted, is a characteristic of private markets generally—in the purchase of educational services from private suppliers (private schools) or public suppliers (local school districts). The main modes of payment to establish entitlement to particular services are fees, property taxes, or some combination of the two. Presumably, households weigh educational outlays that are under their direct control, fees and local school taxes, against all other types of expenditure in maximizing utility of their household budgets. For many middle–class families, educational expenditures per child appear to have an income elasticity of 1.0 or greater—that is, as families become richer, they choose more expensive private schools, more or more expensive private lessons, or residence in a school district of higher school expenditures, and, one may assume, higher property tax payments per household. Throughout the school career of a given middle–class child, these latter choices are by no means mutually exclusive.

Many middle–class children participate in the best education this country has to offer, and it is probably not far off to say the best the world has to offer. Middle–class families are little affected by compulsory attendance laws, for their children are seldom truant nor do they account for any large proportion of early high school dropouts. The collectivity of middle–class families pays in full for the education of its own children and subsidizes part of the cost of education for low–income families.

What they subsidize falls into the realm of education as a public good. Education as a public good is sought for the value of its social benefits (economic argument) and as a means to achieve

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social mobility (an argument based on political ideology). Social benefits protect the fabric of the commonwealth: democracy is the best form of government and for democracy to work the population must be literate; education reduces crime, breakup of families, and social dependency.[1] Social benefits are hard to measure and the calculus of determining what amounts of educational expenditure maximize the net value of social benefits is imprecise.

The argument for educational expenditures on the basis of political ideology, on the other hand, is rather more precise. This nation's political creed demands equal rights for individuals: one person, one vote, etc. We abhor a society in which economic privilege is determined by hereditary class. We believe in equal opportunity for members of the rising generation. Any expenditure on the education of poor children has, one would think, some positive effect on social mobility, but as a nation we have a clearer goal in sight, namely, a society in which family wealth has no relation to probabilities of educational attainment and economic success. This means that the educational services offered to poor children must be of at least as high quality as services received by middle–class children.

Why, then, as middle–class people is there a need to subsidize and otherwise control the education of the children of low–income families? Perhaps it is due to the belief that low–income families are unable or unwilling to provide sufficient education for their children to meet some unspecified necessary minimum of social benefits and to give reasonable credence to the concept of equal opportunity. The public aspect of educational services (not meaning publicly–provided necessarily but meaning services meeting national or social, not individual, objectives) is to serve "other people's children" and to demand that services offered are utilized (compulsory attendance).

In the long course of events, the processes of determining allocations of educational resources reflect a tension between the private and public aspects of educational provision. In the United States, it has been attempted to make financing of public education a seamless web. In this mythology, there is no separation of programmatic content nor is there any separation of financing between income groups. The public schools consist of one big family and resources flow in accordance with the needs of individual students—less to those for whom learning comes easily and swiftly and more to those who face problems in acquiring learning skills. In its extreme version, this mythology sets the

1. Henry M. Levin, *The Costs to the Nation of Inadequate Education* (Washington, D.C.: Government Printing Office, 1972).

United States off from most other countries in the world, even as our results are similar to theirs, certain countries in East Asia possibly excepted.

In this paper it shall be argued that the components of educational provisions which satisfy private demands, mythology aside, almost invariably win out over the public goods components. If true, this leads to a diminished supply of social benefits, on the one hand, and to a stifling of social mobility, on the other. Insofar as these arguments are correct, they also may apply in most countries of the world, whether capitalist or socialist.[2]

Rather than turning directly to the experience of the United States in educational finance, let the argument be clarified by considering some ideas in public finance as developed in earlier times in England.

Beneficial and Onerous Expenditures

At the turn of the century, questions about the appropriate sharing of financial responsibilities between the central government and local authorities were in hot debate in England. One of the key propositions developed in this debate was the following: local authorities should produce most of the money to be spent on services deemed "local" and the central government should provide most of the financing for those locally–administered services designated as "national." Local services were those likely to increase the value of property within a given local taxing jurisdiction; national services had either no effect on property values or a more or less uniform effect over the whole country. It then made sense that local services should be financed by a tax on property values, the "rates" for the owners would recoup at least part of the levies in the form of higher real property worth. On the other hand, if a local authority spent a lot of money of its own on national services, the tax payers would have no means to recoup.

This knowledge about the differential effects on local values of levies for local and national services would make it very hard to finance national services out of a local tax base. For one thing, the town fathers would know that their own town's contribution toward the national service would not affect their own town's benefits, if any—the "free rider problem," and they would not propose such levies. Second, if for unknown reasons, the town authorities, did indeed pass levies for national services, investors

2. China, Cuba, and Tanzania are among the nations to try hardest to remove the effects of family background on children's prospects. None has been thoroughly successful.

in the development of real property would avoid the given town.

In the *Final Report of His Majesty's Commission Appointed to Inquire in the Subject of Local Taxation (England and Wales),* 1901, Sir Edward Hamilton and Sir George Murray argue as follows:

"We would first draw, as clearly as the facts and practical considerations will allow, a distinction, to which we attach much importance, between (a) services which, though locally administered, are national or quasi–national in their character; and (b) services which are in the main of only local interest or importance.

"We admit that it is not possible to make a strictly logical or accurate classification under the two heads, of all the various services for which Local Authorities are now responsible. But it will, we think, be generally conceded that the distinction above indicated is a real one, and one which has a most important bearing upon the subject of our inquiry. It can hardly, for example, be disputed that there is a very material difference in character between such services as the relief of the poor on the one hand, and the construction of sewers or the lighting and cleansing of streets on the other. . . .

"The chief characteristic of the class of services we have described as national or quasi–national appear to be these: (a) the locality is *required* by the State to undertake them; and uniform principles for their administration have been laid down by the Central Authority; (b) though undertaken by the locality for purposes of administrative convenience, they are really services which, to a very large extent, are performed *in the interest of the community at large;* c) like the other national services which are administered by the Central Authority, they do not as a rule confer any direct benefit upon the individual ratepayer or taxpayer.

"The services which fall into the second category are, on the other hand, to a large extent: (a) *optional*—that is to say, the locality has a wide discretion as to the extent to which, and the manner in which, the services shall be performed; and (b) *directly beneficial,* either to the individual or to his immediate neighborhood.

"On the whole, we are disposed to think that the best and simplest test which can be applied in order to determine the class to which any particular service belongs is the degree in which the ratepayer or the owner of rateable property derives direct or immediate benefit from it. From the expenditure on the relief of the poor—for example—the direct benefit to the individual ratepayer is probably *nil.* But the provision of sewerage, the lighting of streets, or the removal of house refuse, constitute services which not only benefit him directly, but are even provided at less cost than if he had to supply them from his own resources. . . .

"For reasons which will appear from the foregoing observations, we propose in this report to describe the services falling under the first category as national and the expenditures on them as 'onerous,' and the services falling under the second category as mainly local, and the expenditure on them as 'beneficial.'

"Whilst again admitting that no accurate classification of expenditure under the two heads can be looked for, we think that, for the purposes we have in view, we shall be sufficiently near the mark if we assign to the first category the expenditure incurred on the following services, viz.: (1) poor relief and other services administered by poor law authorities, (2) police and criminal prosecutions, and also conveyance and maintenance of prisoners, (3) asylums for pauper lunatics, (4) sanitary officers' salaries, (5) main roads and bridges . . ., (6) education (technical and elementary). To the second category, we should assign all other services administered by local authorities."[3]

Thus, education, like asylums for pauper lunatics, was described as being in the national service, and payments for education were "onerous." By no means, however, did "technical and elementary education" cover the whole field of human development. Middle and upper class families arranged for the education of their own children by tutors or by sending them to private preparatory institutions, the English public schools, and, finally, the university. All of this educational activity was, in earlier times outside the public sector. Technical and elementary education was in the public sector but it was not for the children of local property tax payers—these forms of schooling were for "other people's children." Hence, educational expenditures, depending on the social class of student served, could be regarded as either onerous or beneficial, though by the fact that the beneficial services were provided mainly in the private sector, the customary nexus between quality of service and property values was largely absent.

In the *Report* of 1901, two additional points of importance were made. If, for administrative convenience, a national service was to be administered by local authorities and if at the same time the onerous charges were to be met by the central government, how could one assure that the services would be administered efficiently? One answer was to declare that keepers of pauper lunatics, school teachers, etc. , were "Imperial officers," working under the pay of central government and subject to some amount

3. United Kingdom, Parliament, *Final Report of His Majesty's Commission Appointed to Inquire into the Subject of Local Taxation (England and Wales)*, Cd. 638 (London: His Majesty's Stationery Office, 1901), 123–24.

of periodic inspection from the center. A second, and apparently better, proposal was that Imperial grants to local authorities be designed to meet something less than the full costs of national services, in order to provide an incentive to local authorities to be prudent and economical in the management of those services. The amount withheld was intended to be just sufficient to provide efficient management by local authorities.[4]

The second important, additional idea in the 1901 *Report* had to do with the "burden" of rates, or taxes on property. ". . . it may be argued that, insofar as taxation implies a burden, revenue raised by rates for all expenditure which the individual would, if it were not undertaken by the local community, have to incur himself, ought not to be reckoned as taxation at all. . . ." This point is central, as we shall see later, to the argument about whether federal deductions of local property taxes are justified in the theory of public finance.[5]

So much for the *Final Report on Local Taxation*. The question of the basis for designating elementary and technical education as a national service should now be addressed. What returns to the population at large, or to the nation, were expected to flow from providing schooling for the children of the lower classes? The answer to this question had been given earlier, in 1776, by Adam Smith. Adam Smith was and in his writing he remains a leading advocate of the free market system. Human happiness increased as people were free to follow the unfettered pursuit of private gain. In Smith's eyes, government was an actual or potential enemy of economic growth, and he defined the functions of government very narrowly, the chief of which functions was defense of the realm. Though Smith offered a succinct version of human capital theory, he took a very dim view of educational offerings that were, whether by endowment or public support, subsidized.

> In every profession, the exertion of the greater part of those who exercise it, is always in proportion to the necessity they are under in making that exertion. This necessity is greatest with those to whom emoluments of their profession are the only source from which they expect their fortune, or even their ordinary revenue and subsistence. In order to acquire this fortune, or even to get this subsistence, they must in the course of a year, execute a certain

4. United Kingdom, Parliament, *Minutes of Evidence Taken Before the Royal Commission on Local Taxation*, C. 8763 (London: His Majesty's Stationery Office, 1898), 101.

5. Parliament, *Final Report*, 110.

> quantity of work of known value; and, where the competition is free, the rivalship of competitors, who are all endeavoring to jostle one another out of employment, obliges every man to endeavor to execute his work with a certain degree of exactness. . . . The endowments of schools and colleges have necessarily diminished more or less the necessity of application in the teachers. Their subsistence, so far as it arises from their salaries, is evidently derived from a fund altogether independent of their success and reputation in their particular professions.[6]

Furthermore, the curricula in publicly–supported or endowed institutions tended to be irrelevant, because teachers could run courses in accordance with their habits and preferences, regardless of whether these courses met the demands of students.

It is thus interesting to note that Smith, who sought to pare down government to its bare bones and who deplored the quality of subsidized education, argued nevertheless that the central government should support schools for the children of the poorer classes. What social benefits did he find in such schooling?

> Some attention of government is necessary in order to prevent the almost entire corruption and degeneracy of the great body of the people. In the progress of the division of labor, the employment of by far the greater part of those who live by labour . . . comes to be confined to a few very simple operations. . . . But the understandings of the greater part of men are necessarily formed by their ordinary employments. The man whose whole life is spent in performing a few simple operations, of which the effects too are . . . always the same, or very nearly the same, has no occasion to exert his understanding, or to exercise his invention in finding out expedients for removing which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become. . . . Of the great and extensive interests of his country he is altogether incapable of judging . . . he is equally incapable of defending his country in war.[7]

Education for the masses, hence, is a complement to the sums that the government spends in its military budget. Just as defense expenditures are non–excludable and, accordingly, are not to be

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6. Adam Smith, *The Wealth of Nations: An Inquiry into the Nature and Causes of the Wealth of Nations,* Modern Library Edition (1776, reprint, New York: Random House, 1937), 717.
7. *Ibid.,* 734–35.

given over to voluntary support of private parties or to local government, so too the social benefits of education of the poorer classes came by analogy to be seen as non–excludable and requiring of central government action for their effective provision. It is perhaps appropriate at this point, given the connection Adam Smith drew between basic education and military prowess, to note the 1982 lament of Bill Rose, aide to Governor William Winter, about the then deteriorating conditions of schools in Mississippi, as exemplified by a high failure rate for educational deficiencies in enlistment to the armed services: "It's really sad when Mississippians aren't even smart enough to be cannon fodder."[8]

Can these observations from England in earlier times be helpful in understanding the development of educational finance in the United States? The authors of this paper believe that they serve to illuminate some aspects of the history of school provision and, more specifically, that they help to explain the following conditions or events: (1) the financial condition of schools for blacks in the post–Civil War era; (2) the present condition of inner–city schools in large urban centers; (3) the quality of vocational education offered to youth of secondary school age; and (4) the effects of neutralizing local wealth.

The Development of Finance for Public Schools in the United States

Property taxes still (1985) provide approximately 40 percent of revenue receipts of public elementary and secondary schools. Should property taxes for schools be regarded as supporting expenditures that are beneficial or expenditures that are onerous? It is the viewpoint of the present researchers that taxes paid by some households are beneficial while those paid by others are onerous; the same distinction would apply to parties who pay property tax on non–residential holdings. For school property taxes, there exists a continuum, running from support of purely beneficial outlays to, in effect, purely onerous. The beneficial end of the continuum is the relatively small, relatively homogeneous, and relatively wealthy school district, with an intensively academic curriculum. In such districts, parents are likely to believe they have an effective voice in school affairs. They tend to believe that the financial operations of the district can be made plain to interested parties and that, in the main, the schools are run with a reasonable degree of efficiency. At those times when school offi-

8. Bill Rose, "An Attempt to Drag Mississippi into the 20th Century," *San Francisco Examiner,* December 12, 1982, p. 1.

cials propose an increase in budget, there is some confidence on the part of parents that their own children will gain some benefit. There is an apparent and believable connection between school quality and maintenance—or even enhancement—of house values.

For example, in Northern California, the school district of Piedmont is wholly surrounded by the Oakland Unified School District. Piedmont has a reputation, among the highest in the state actually, for academic superiority. Oakland has a reputation as one of the most troubled districts. Holding structural features constant, houses in Piedmont carry a substantial premium in price over those in Oakland, and it would be foolish to deny that entitlement to send children to Piedmont schools is not one of the important reasons for the differential. This finding regarding property values helps create a favorable disposition toward increases in school levies among householders who do not have children in school. Non–residential taxable properties in such districts are almost exclusively commerical, not industrial, and the owners of the commercial enterprises—restaurants, boutiques, etc.—find it to their advantage in attracting trade of non–residents, to see the image of a model community maintained, and superior schools are one mark of a model community. The majority of local taxpayers, parents and non–parents both, are likely to see a connection between local outlays for schools and private benefit.

At the other end of the continuum—the onerous expenditure end—is the very large city district, New York and Chicago being prototypes. Parents, generally speaking, do not feel that they have an effective voice in the running of the schools. In a majority of big city schools, the amount of academic learning that takes place is below acceptable standards. There is no strong sense of trust on the part of residents that the district's operations are run in an efficient manner. In any case, it is difficult to obtain financial data about the district's operations that is understandable to lay persons. If and when school district officials propose a property tax increase, parents may find it hard to make a connection between the increases in taxes and program benefits that their own children will receive, at least in the near future. Quite possibly, all of the new money will go to schools in other parts of the district that are "more needy."

More distressing for improvements in big city education, we note that the connection between school quality and property values appears to have been severed. In many parts of our great cities, property values rise *pari passu* with deterioration in real educational provision. Gentrification of urban neighborhoods certainly demands fire and police services, street maintenance, snow removal and scavenging, but it does not demand good public schools. The classification of services as beneficial and onerous in the *Final Report of His Majesty's Commission to Inquire into the Subject of Local Taxation (England and Wales)*, 1901, cited above, appears to apply with distressing clarity to our large cities in 1987.

What, then, of state tax levies in support of the public schools? If expenditures in suburban school districts are mainly beneficial, does it follow that state grants to those districts are beneficial? The answer would appear to be this: for existing grants, yes; for new state taxes to support increases in grants, no. Existing tax levies of the states to support in part the expenses of schools have been absorbed in the budgets of taxpayers. Suburban residents probably do not wish to have the grants abolished, even if such abolition meant a reduction in state tax rates. On the other hand, it does not make a great deal of sense for a suburban household to urge its legislators to vote for new state taxes to allow an increase in school grants. The new money would most likely flow disproportionately to low–wealth districts and, conceivably to large cities—in both cases for the schooling of "other people's children." Dollar–for–dollar, it makes more sense to oppose new state levies in preference to local tax increases, if needed, for schools. In addition, more state money sometimes brings more state regulations.

We are left with the conclusion that the beneficial, dynamic share of elementary–secondary educational expenditure is to be found mainly in the local receipts of suburban school districts. Amongst this group of districts, expenditure growth finds most favor in high wealth, high income communities. Otherwise and in the main, educational expenditures by state and local governments are onerous, meaning that the benefits are non–excludable among members of voting middle class households. Services financed by onerous levies are not always underfunded, *e.g.* defense, but it takes strong central leadership to overcome the incentive for individual householders to become "free riders."

In the beginning of our nation's existence, educational expenditures were largely beneficial. Though public schools in the states west of the Alleghenies were recipients of receipts from federal land grants, for the most part education was privately financed and privately administered. Beyond the land grants, federal aid was basically non–existent until 1917, and from then on it has never been a major source of funds. States and localities assisted schools in a somewhat piecemeal fashion. Liquor license fees, entertainment levies and lottery receipts were used in different places in different times. Schools were frequently granted tax exempt status. Some of the larger cities made grants to school societies, these being organizations established to serve the urban poor. In some states, parents were offered the chance to declare themselves paupers, thence establishing an entitlement to send their children to an existing private school (the school would then be reimbursed by the state from a poor tax). Some southern states made their subsidy of academies dependent upon the academies taking in a certain number of indigent students.[9]

Gradually, through the nineteenth century, the idea of establishing "free" public school systems, open to all students of given ages, took hold. The northeastern states moved ahead before the southern states and the cities were generally in advance of rural areas. Around the time of the Civil War, the requirement that all parents who could afford them pay fees—"rate bills"—as a condition of school attendance for their children was abolished in the northern and western states. Shortly thereafter, the progressive states established systems of local taxation that met the costs of teachers and school supplies. The standard provision varied markedly between cities and rural districts and within the set of rural districts themselves.

By 1890, total governmental revenues for public schools in the United States was $141 million, of which 18.4 percent was drawn from state school taxes and appropriations. Changes in receipts and in governmental shares are given in Table 1.

At the end of World War I, state governments were contributing only 16.5 percent to total revenue receipts of the public schools, approximately the same share as in 1890 and, again, approximately the same share as in 1930. The local property tax was an almost constant mainstay of school support for 40 years, 1890 to 1930, and school expenditures, it could be said, remained primarily beneficial. Major increases in the state share occurred in three decades only: the 1930s, the 1940s, and the 1970s.

In the 1930s, a number of local school districts fell into serious financial trouble as their local tax bases became eroded by the depression. State governments stepped in to ward off municipal bankruptcy. The rise of state aid in the 1940s could be related to the enormous financial demands put on school districts by the post–war baby boom. The jumps in the 1970s appear to have two causes: (1) in some states there was a taxpayer revolt affecting

9. J. Stephen Hazlett, "Financial Support of Schools: History," *in* Lee C. Deighton (ed.), *The Encyclopedia of Education,* 10 vols. (New York: The Macmillan Company, 1971), 4:32.

TABLE 1
TOTAL REVENUE RECEIPTS FOR PUBLIC ELEMENTARY AND SECONDARY SCHOOLS AND GOVERNMENTAL SHARES OF RECEIPTS, SELECTED YEARS, 1890 TO 1985

Year	Total Revenue Receipts ($ millions)	Federal	Shares State	Local
1890	141	NA	18.4	NA
1903	253	NA	17.2	NA
1910	426	NA	14.9	NA
1920	970	0.3	16.5	83.2
1930	2,089	0.4	16.9	82.7
1940	2,261	1.8	30.3	68.0
1950	5,437	2.9	39.8	57.3
1960	14,747	4.4	39.1	56.5
1970	40,267	8.0	39.9	52.1
1980	96,881	9.8	46.8	43.4
1985	137,573	6.2	49.0	44.8

Source: Arvid J. Burke and Paul R. Mort, *Defensible Spending for Public Schools* (New York: Columbia University Press, 1943), 17; Arvid J. Burke, *Financing Public Schools in the United States* (New York: Harper & Brothers, 1951), 121; Office of Educational Research and Improvement, U.S. Department of Education, *Digest of Educational Statistics, 1985–86* (Washington, DC: Government Printing Office, 1986), 80; Bureau of the Census, US Department of Commerce *Statistical Abstract of the United States, 1986* (Washington, DC: Government Printing Office, 1986), 142.

local property taxes and state governments moved in to avoid financial disaster; and (2) court actions ordered school finance reform.

It cannot be claimed, however, that all of the increase in state funds in the 1970s was directed toward the purchase of social benefits or to the establishment of equal educational opportunity. The state aid formulas in use in most states protected the financial standing of high–wealth districts—not completely but in considerable measure. Foundation program plans had foundation program values sufficiently low that local wealth disparities operated in full force over the range of expenditures of most districts. Local contribution rates were set far higher than the theoretical ideal. Minimum grants per student were provided to districts regardless of their wealth.

In states that employed versions of the percentage equalizing grants (including guaranteed valuation and district power equalizing), state sharing often did not extend into the upper ranges of expenditure, recapture was generally avoided, and minimum grants were often given. The upshot was that school finance reform did not produce fiscal neutrality in any very complete sense. In most states we still find a reasonably strong positive correlation between district wealth and expenditures per student. It is also true that during the 1970s, voters lost their taste for district consolidation as a means of making the distribution of educational resources more equitable.

THE FEDERAL ROLE

States differ markedly in personal income and, correspondingly, in educational expenditures per student. In 1930, the range in school expenditures was from $32 in Georgia to $138 in New York (national average = $87), a difference of 4.3 times.[10] Now, the relative differences are smaller but they are still considerable. The range in 1985 (continental U.S.) is from $2,182 in Utah to $5,226 in New York, a disparity of 2.4 times.[11] It would be, so it would seem, an appropriate federal action to make grants to the poorer states to help them meet national standards of educational adequacy. There were several proposals toward this end; three are cited below.

(1) In 1870, Representative George F. Hoar of Massachusetts introduced a bill intended to provide for the following: a national system of education to be operated by the states under federal standards; direct federal interventions to correct deficiencies where states failed to create adequate systems of public schools, these interventions to include building schools and providing textbooks; imposition of a direct tax upon the states' inhabitants, which tax proceeds would have been distributed on the basis of illiteracy; and distribution of proceeds of states of certain public lands also on the basis of illiteracy.

(2) A bill by Senator Henry Blair was introduced throughout the 1880s and passed the Senate in 1884, 1886, and 1888. It would establish the following: federal assistance in the form of cash grants, to be distributed according to state illiteracy rates; a matching requirement demanding that states receiving aid spend an equal amount of their own funds, regardless of their poverty level; a requirement that benefiting states provide by law a system of free common schools for all children of school age, without distinction of race or color, either in the raising or distributing of school revenues or in school facilities provided; a system of required reports on equal treatment of black and white schools and on such other matters as expenditures and attendance records and minimum curricular requirements.

(3) In August of 1946, Senator Robert Taft, a leading Republican figure of his time, stated the following on the Senate floor:

10. Arvid J. Burke and Paul R. Mort, *Defensible Spending for Public Schools* (New York: Columbia University Press, 1943), 65–66.

11. Bureau of the Census, US Department of Commerce, *Statistical Abstract of the United States, 1986* (Washington, DC: Government Printing Office, 1986), 142.

> In general . . . I have felt very strongly that education is a state and local responsibility. . . . However, the difficulty which has developed during the study we have given the problem is that in many states, although they are devoting as much or more than the average amount, on the basis of their wealth and the current income spent on education by the entire nation, nevertheless they are unable to provide an adequate, basic minimum education for their children, due to the great difference in income as between the states. . . . So I feel that the federal government does have a responsibility to see that every child in the United States has at least a minimum education in order that each child may have the opportunity which lies at the very base of the whole system of our Republic.

However, Taft argued, aid to *all states* would be inimical to his stated goal." . . . it (aid to all states) would mean that we would be paying the states which already provide a good basic education for their children money which is needed by states which are not able to provide such an education at this time."[12]

A federal equalization bill passed in the Senate in 1948 (Senate 472, 80th Congress) but failed in the House. Even to gain passage in the Senate, it was necessary to provide federal equalization aid for all states, even the richest. Given the assumed constraint of size of the intended appropriation (about $1 billion), offering funds to every state meant that the proposed assistance to poor states became too meager to accomplish Senator Taft's objective of equalization.

All of the proposals for federal equalization aid faced a number of political obstacles, but a main point is the following: legislators from the richer states would not accept a bill in which the expenditures were mainly onerous; instead they demanded beneficial expenditures, meaning grants to their own constituents. If their kind of bill had passed, equalization effects would have been slight, but they were prepared to block bills that carried funds to poor states only. Either way, equalization could not be achieved.

As we all know, on the other hand, commencing in 1965, the Congress and the President accepted a series of acts benefiting special needs populations, in, of course, all of the states. These are rather purely onerous types of expenditures, favoring low–income students, the handicapped, the non–English speaking, etc. At first glance, it would appear that the federal government, with its vast revenue potential and with its distance from local political bargaining, has assumed burdens of paying for social benefits

12. *Congressional Record,* 79th Cong., 2nd sess., 1946, 92, pt. 8:10620.

and for promoting equal educational opportunity that states and localities have found hard to shoulder.

Actually, the largest contribution of the federal government to public schools takes the form of federal tax expenditures. These were estimated to be $18.1 billion in 1984 (most of which was represented by state and local tax deductions on account of elementary and secondary schools), as compared with federal grant contributions to local schools of $10.5 billion. In other words, federal tax expenditures for education exceeded federal school grants by 72 percent. And between 1980 and 1984, federal tax expenditures rose by 39 percent while federal grants to local schools fell by 13 percent.[13]

Federal tax expenditures benefit primarily families with higher incomes, first because they itemize and second because they pay taxes at higher marginal rates. For example, in a paper published in 1982, Thomas Vitullo–Martin estimated that it costs households in Pocantico Hills, a high–wealth suburban district in New York, only $350 in additional outlays for each $1,000 per student increase in the school budget, whereas in New York City residents would have to fund nearly the full $1,000 out of their own pockets.[14] Accordingly, it is entirely possible, even likely, that federal involvement in elementary and secondary education is, on the whole, slightly more beneficial than onerous.

It is from a basic analysis such as this that some economists question the logic of property tax deductions, especially as regards the protection that property tax deductions give to public schools against the competition of private schools. As John M. Quigley and Daniel L. Rubinfeld state:

> To the extent that one is willing to view the local property tax as a benefits tax, the traditional argument for deductability makes no sense. If state and local taxes are benefit taxes, and individuals are mobile among jurisdictions, then choices of public goods are just like choices among private goods. Therefore, state and local taxes are discretionary payments and should be subject to taxation at the federal level. If they are deductible, the tax system generates substantial inequity; the federal subsidy increases with income, and richer jurisdictions are likely to make larger tax efforts. . . . The removal of deductability will encour-

13. National Center for Education Statistics, U.S. Department of Education, *Federal Support for Education, Fiscal Years 1980 to 1984* (Washington, DC, June 1985), 2–5.

14. Thomas W. Vitullo–Martin, "The Impact of Taxation Policy on Public and Private Schools," *in* Robert B. Everhart (ed.), *The Public School Monopoly: A Critical Analysis of Education and the State in American Society* (Cambridge: Ballinger Publishing Company, 1982), 437–39.

> age local jurisdictions to switch to user charges or to direct private provision of many services now provided collectively.[15]

The only qualification for this argument is to recall that for rich households living in central cities, the schools' portion of local propery tax payments is a levy for onerous, not beneficial, expenditures. Removing deductability might worsen the plight of central city schools, even as it made educational finance in suburban areas more fair.

Consequences of Duality in Educational Finance

Four examples of what is seen as the expected consequences of the duality in educational finance are now offered. The examples, in our view, illustrate how beneficial expenditures prevail over onerous.

(1) *Differences in Standards in Black and White schools in the South.* The fact that students in southern states attended separate schools by race over much of our country's history allowed an easy demarcation of expenditures on elementary and secondary schools into beneficial and onerous categories. It would be expected that the white ruling elite would direct a disproportionate share of property tax receipts into schools attended by their own children, regardless of consideration of resource requirements of different groups of children in the educational process. And this appears to have happened. Writing in 1928, Lance G. E. Jones made the following observations:

> Appropriations from public funds for Negro education have increased steadily in recent years, and in a few states the expenditures on public schools for coloured people is as great as the total expenditures on white schools ten years ago. In spite of this increase Negro schools still receive far less than white schools, and comparisons on a per capita basis show that the ratio of expenditure on teachers' salaries, for example, varies from approximate equality in Kentucky to as much as 8 to 1 in South Carolina. The discrepancy is greatest where the percentage of Negro population is highest, a fact due in the first instance to the defensive attitude which the small white group consciously or unconsciously adopts, and in the second place to the local system of administration which places control of school provision in their hands. State appropriations to

15. John M. Quigley and Daniel L. Rubinfeld, "Budget Reform and the Theory of Fiscal Federalism," *American Economic Review* 76, no. 2 (1986):135.

> the counties are made on the basis of population or of school attendance, white and Negro; the county adds a further sum from local taxes, and the County Board of Education, composed of white people, determine the distribution of the whole. In their anxiety to provide adequately for their own children they may assign as much (or more) for the maintenance of a small number of white schools as for a much larger number of Negro schools; and although a far–sighted County Superintendent of Schools can do much to achieve a more equitable distribution, the precariousness of his position and the shortness of his tenure of office usually prevent his influence from being continuous.[16]

As late as 1939–40, the average number of days black schools were in session was nineteen less than for all schools together. The average salary paid teachers in black schools was $601, as compared with an average salary of $1,046 in Southern white schools. Likewise, the instructional expenditure per student in 1939–40 in black schools was only $19, this being $40 less than the $59 spent per student in Southern white schools.[17]

(2) *The Condition of Inner City Schools.* In earlier times, schools in our present central city areas were operated by a multiplicity of local boards. For example, as late as 1905, Philadelphia had forty–three district school boards with a total of 559 elected members.[18] This fragmentation allowed richer taxpayers to arrange their school expenditures in a beneficial manner, and the result, naturally, was considerable unevenness in resource allocations among city districts. Nevertheless, cities at least up until World War II were centers of educational excellence, offering academic and technical programs in variety and depth unmatched by the suburbs. After consolidation the beneficial character of expenditures was maintained by the use of various kinds of restrictions to entry to favored schools within the cities.

In more recent times the majority of students in big city districts are drawn from low–income families. The larger taxpayers have come to regard local levies for schools as mainly onerous, and there are rather tight limits beyond which they cannot be pressed to contribute. The conditions in the more troubled city

16. Lance G. E. Jones, *Negro Schools in the Southern States* (Oxford: Oxford University Press, 1928), 102–5.

17. Henry M. Levin, *Education and Earnings of Blacks and the Brown Decision* (Stanford: Institute for Research on Educational Finance and Governance, 1979), 88.

18. David Tyack, "City Schools: Centralization of Control at the Turn of the Century," *in* Jerry Israel, *Building the Organizational Society* (New York: The Free Press, 1972), 58.

schools have often been described, and these descriptions have, one would think, become overly familiar. Nevetheless, necessary costs per student in central cities are high, as the argument in *Levittown v. Nyquist* indicated. What of their present level of expenditures? If we consider expenditures in the ten largest districts of the country in 1981–82, we find that in six cases, namely, New York, Chicago, Detroit, Philadelphia, Houston, and Dallas, expenditures per student were less than the state average.[19] The four other large districts, the ones with expenditures above state average, are themselves instructive. Three are Southern county districts: Dade and Broward in Florida, and Fairfax in Virginia. Each serves a large middle–class student body. The other case is Los Angeles, showing expenditure per student $270 above state average. Los Angeles' expenditures are not locally determined, nor were they in 1981–82. What is locally determined is intra–district allocations of resources. As it turns out, the intra–district allocations favor families in the San Fernando Valley and coastal areas of the district, at the expense of low–income and minoriy students downtown.[20]

(3) *The Condition of Vocational Education.* In 1917 the federal government began making grants in support of vocational education. From the beginning of federal involvement, vocational educators were encouraged to protect their resources from raids by administrators of academic programs. Severe restrictions were placed on the uses of vocational funds, and on qualifications of teachers eligible to receive such funds, and on the uses of student time. Even as late as 1948, a vocational spokesman could lament: "Let it never be forgotten that educational programs are predominantly . . . controlled by men and women whose only education, whose only training, whose only occupation has been in the academic field. . . . If there are no safeguards, no mandates, no bulwarks, the weight of the centuries, the curse of traditionalism, the fortuities of the academicians can easily set back our (vocational) program fifty years."[21]

In the local setting, college preparation represents beneficial expenditure and vocational, or schooling for other people's children, is an onerous outlay. Vocational programs in the comprehensive high schools have languished (the facilities have been

19. Office for Educational Research and Improvement, U.S. Department of Education, *Digest of Educational Statistics, 1985–86* (Washington, DC: Government Printing Office, 1986), 165–66.

20. Patricia R. Brown and Kati Haycock, *Excellence for Whom?* (Oakland: The Achievement Council, 1984), 11.

21. Franklin J. Keller, *Principles of Vocational Education* (Boston: D.C. Heath and Co., 1948), 264–65.

described as rusty, "industrial museums") and it is in the high school setting that most vocational offerings are found.[22] In general, our technical programs do not meet European standards.

An interesting contrast exists in California. For high school age youth, programs are available in regional institutions, operated under separate control and funded separately by the state.

Then there are programs operated by school districts and placed in the regular high schools. In the former, students in office skills use word processors to become familiar not only with manuscript preparation but also spread sheet programs. In the classes conducted in the high schools, students practice typing on manual typewriters. A recent study indicated that students who concentrate on vocational education in the high school setting and receive diplomas fare no better in the labor market than high school dropouts.[23]

(4) *The Effects of Neutralizing Local Wealth.* Given the very sizeable differences in local wealth per student that exist in the states, one commonly assumes that strong reliance on property taxation to support schools produces inequality of provision. (The case of New Hampshire is enlightening in this regard.) Does it follow that freeing support of schools from the effects of local wealth disparities will lead us to equality of opportunity? The California experience, for what it is worth, suggests otherwise.

The combination of the *Serrano* judgement and Proposition 13 has meant that for some 95 percent of the school districts in the state no influence of local wealth on spending remains. In 1985–86, 91.1 percent of students were within a $100 expenditure band, relative to type and size of district. Yet, expenditures statewide have languished. In 1984, California ranked fifth among the states in personal income per capita (compared to New York's sixth place), but it spent less than the national average per student in its public schools (and $1,900 less per student than New York did). In 1977–78, Californians spent 4.7 percent of their personal income on public elementary and secondary education; by 1985–86, this ratio had fallen to 3.8, placing California forty–sixth among all states on this measure. Average class size in California is the largest in the nation.

Given that public funds for schools are now distributed statewide and thus have lost their beneficial character to middle

22. Gilbert T. Sewall, "Vocational Education That Works," *Fortune*, 19 Sept. 1983, 70.

23. David Stern, E. Gareth Hoachlander, Susan Choy, and Charles S. Benson, *One Million Hours A Day: Vocational Education in California Public High School*, Policy Analysis for California Education (Berkeley: Graduate School of Education, University of California, 1985).

class families, it has behooved those families to make voluntary contributions to their local districts or schools ("educational foundations") and to supplement the instruction their children receive in public schools with private lessons. On the other hand, it is no doubt true that low–income children are especially vulnerable to being taught in overcrowded classes. New York State has greater dollar inequality than California but it also spends more on elementary and secondary education. Given those large expenditures in New York, it is not necessarily true that a low–income. student in a low–wealth district in New York is worse off than a low–income student in an overcrowded class in California.

The irony is compounded by the fact that public postsecondary education remains a beneficial expenditure for California's middle–class. During those years when outlays for schools were languishing, money for post–secondary programs, especially in the university system, was bountifully available.[24] Whereas the national average percent of personal income spent on higher education from public sources in 1981–82 was 0.98 percent, California's ratio was 1.24 percent, a positive discrepancy of 27 percent and a sharp contrast with California's low effort toward the public schools. Within the university system, the Berkeley campus is measured at or near the top by almost all measures of academic prowess. It stands on a par with such institutions as Harvard, M.I.T., Stanford, etc., yet this quality of higher education is available to California residents at a fee price of $1,300 a year, far below charges in the elite private institutions. This is unparalleled public bounty for the middle–class and also, of course, for that small fraction of low–income youth who are qualified to attend.

Summary

To receive a more adequate flow of social benefits of education and to arrive at a reasonable position *vis à vis* the goal of equal educational opportunity, schools attended by low–income students should be at least as good as schools attended by middle–class youth. They are not. The gap is wide. The voting, middle–class taxpayers seek immediate returns in the quality of schools their own children attend—this is one of the important attitudes of good parenting. What we lack is a mechanism to trigger improvements in lower quality schools swiftly and positively to

24. This is illustrated by a major story in the *San Francisco Chronicle*, in which State Schools Superintendent Bill Honig called the Governor's fiscal 1988 budget a "disaster," *San Francisco Chronicle*, 15 Jan. 1987, p. 1; followed by a story in the same paper on January 16, 1987 in which the President of the University of California indicated that the University was in good financial condition, *San Francisco Chronicle*, 16 Jan. 1987, p. 9.

match the gains being achieved for middle–class children, until such time as the two sets of schools have approximate equal standing. For school finance specialists the search for that mechanism should hold first priority.

In the past it has been thought that simply increasing the state share of support would do the job. The authors of this paper hold that it will not as long as three conditions of finance prevail: 1) the federal government fails to adopt a strong inter–state equalization program; 2) state aid equalization formulas remain in a relatively weak condition; and 3) federal tax expenditures exert a major, but class differentiated, effect on property tax yields.