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Schoolhouses, Courthouses, and Statehouses; Solving the Funding Achievement Puzzle in America's Public Schools

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This thoughtful article discusses the building blocks of a successful performance-based funding system. A performance-based funding system would join decisions of school policy and finance, decisions that are too often considered separate or unrelated, leading to bad policy outcomes and inefficient schools. A performance based funding system integrates principles like accountability, local decision making, rational funding, and more.



COMMENTARY

Performance-Based Funding

By **Eric A. Hanushek and Alfred A. Lindseth**

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How to finance our schools remains controversial, and is the subject of continuous rancor in courthouses and statehouses across the nation. There are many movements, replete with Web sites and annual reporting, that advocate, among other things, proposals such as the "65 percent solution" and weighted student funding. None of the approaches that have been tried, however, has led to significantly improved achievement by students or has closed the nagging achievement gaps that continue to plague schools.

To understand the current predicament more fully and our ideas for making education dollars more effective in the future, we need to examine the past half-century of school finance policy. State legislatures, which spend more money on education than any other sector of government, have been tugged in a variety of directions but have invariably responded by providing ever-increasing funding for schools. Even in today's dire fiscal climate, education appropriations enjoy the highest priority, although the recipients of such funding are loath to acknowledge their favored status. At the same time, the courts have over the past 30 years become an equally important player in the funding of schools. Only a handful of states have escaped court scrutiny over the allocation and amount of school funding.

The result of all this is that spending per pupil has almost quadrupled since 1960 (after allowing for inflation). Achievement, however, has remained largely flat, raising important questions about whether America's children are getting their money's worth.

Few people disagree that the driving force behind the funding of our schools ought to be a simple set of policy goals: to improve student achievement and to reduce systematic disparities by race and income. Strangely, however, school finance policy has remained largely divorced from these ultimate objectives. Once it is established that schools, meaning student achievement, need to be improved, either by the legislature or the courts, the remedy of choice is to provide more money, but to leave the existing system for spending it in place. Questions as to whether or how to change existing ways of doing things to make education dollars more effective are rarely addressed.

The research we present in our book *Schoolhouses, Courthouses, and Statehouses* traces and documents this history in detail. It is perhaps most instructive to look at the states that have had dramatic increases in funding as a result of court orders. Kentucky (the first of the "adequacy" rulings in education), New Jersey (with almost four decades of court involvement in school funding), and Wyoming (where the courts instructed the state to provide a "visionary and unsurpassed" education for its students) have each seen their school spending levels blossom under court order.

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Unfortunately, one would be hard pressed to see the results of this in increased student achievement. While many try to hang on to small perturbations in performance—such as the recent uptick in National Assessment of Educational Progress scores in New Jersey, after almost 40 years of effort—the unmistakable overall picture is one of states that have done no better, and often worse, than other states that did not have anywhere near the same influx of new school money.

The only state that has significantly moved forward under court order has been Massachusetts. But here the story is also more complicated, because Massachusetts combined strong standards, assessment, and accountability with increased funding. Indeed, the results in Massachusetts, where significant changes were made to the education system, highlight the need for the fundamental changes we recommend.

The basic problem with most school finance systems, both those in existence and those proposed, is that funding is separated from education policy. At a minimum, this eliminates a powerful tool: the huge incentives a properly designed finance system can offer for achieving improved outcomes. Worse, it frequently introduces perverse incentives that financially discourage schools from becoming successful.

Much of the ideological substance of the prior debate on funding boils down to a disagreement as to whether students of a school are performing poorly because they bring to school deficits caused by external sources (such as poverty or language deficits) or because the school is just doing a poor job of educating them. If the former, one might reasonably fund additional programs at the school to enable students to overcome such deficits. If the latter, however, it seems unreasonable to pump more money into schools that are doing a poor job. We should not reward failure, but that is exactly what the current system does in many respects.

We conclude, however, that this is the wrong debate. Both causes of school failure are relevant and must be dealt with, and that is what the “performance-based funding” system we have developed is designed to do. Its five interlocking components complement and support the following educational objectives.

- *Provide clear and strong standards, assessment, and accountability.* This includes implementing a value-added assessment system for schools and personnel, so that the contribution of schools to student outcomes can be the focal point of policy. Setting the expected outcomes is a natural responsibility of the states and the federal government.
- *Empower local decisionmaking.* The attempt to run schools out of state capitols has contributed to the inability to translate higher funding into higher achievement. States should concentrate on *what* should be achieved instead of how to do it, and grant local districts the latitude to decide how best to deal with their own particular challenges. Local decisionmaking also needs to involve local citizens in setting funding levels and in having effective choice options, whether through charters or broader choices that do not link schooling so tightly to residential location.
- *Directly reward performance.* Those who contribute to higher student achievement should be rewarded. This includes teachers, administrators, and other personnel. Again, the focus should be on student performance, and the plan almost certainly should involve a combination of group and individual rewards. (We stress, however, that without individual rewards, it is exceedingly difficult to get good people to go to bad schools, and without such participation it is virtually impossible to turn around a failing school.)
- *Provide accurate information for continuous improvement.* No system can work effectively without

accurately assessing on a routine basis the value added by schools and the programs relied upon by them to educate their students. Nor can parents make good choices and appropriately press for better performance without this information. An element of providing it is developing a mentality of assessing programs, instead of simply introducing “good ideas” that often look more like fads.

- *Ensure rational and equitable funding.* Our recommendations presume that schools have appropriate resources to do their job. One element of this is providing extra funding to compensate for costs outside a district’s control, such as special needs of students or high-cost labor markets. But a related element is ensuring that the funding mechanism itself does not encourage “gaming” the system, such as in the overidentification of special education students. By providing resources related to the needs of students, it is then possible to concentrate on the performance of schools and to reward the people who bring success. At the same time, the system cannot be held hostage to arguments that no other changes are possible until funding is “adequate,” because these arguments will simply never be satisfied. (Remember the quadrupling of spending over the past half-century.)

Unless we can get past the ideology that says fundamental change is too hard, we will remain stuck with today’s outcomes, placing ourselves in jeopardy with our competitors on the world scene.

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