

New Federal Roles in Education

By Richard Rothstein¹

In the recent presidential campaign, Governor George W. Bush insisted he was not running for the job of federal superintendent of schools. Yet he regularly discussed education issues (like testing, or how and when to teach reading) that have not previously been within the scope of federal responsibility. Meanwhile, Vice-President Al Gore made no efforts to abjure intervention in state and local education decisionmaking. He proposed increased salaries for teachers, charter schools, class size reduction, and other policies that have traditionally been beyond federal reach.

Perhaps the role of the federal government in education is destined to expand from campaign rhetoric to actual intervention. But we might consider taking care of first things, first. There are some important areas of elementary and secondary education policy where the federal government could play a unique role, because these areas are specifically federal in character.

The first, and most important, is the interstate inequality of per pupil spending, related to the inequality of states' relative capacity to raise revenues for education.

A second, less important, is the rigidity of the interstate teacher labor market, due in part to the lack of portability of teacher pension plans. (A related federal matter, affecting the rigidity of the interstate teacher labor market, is the lack of national standards for teacher certification. This paper does not discuss this issue, however.)

For nearly 30 years, state courts have ordered more equitable spending between school districts. Yet this within-state focus has meant that an even greater inequality has been ignored: the difference in education expenditures between rich and poor states. Because the financing of public education has always been primarily a state and local, not a

federal, matter, very little policy attention has been devoted to this interstate inequality. Yet this might be the most serious financing problem in American education. Per pupil expenditures in the lowest-spending states, on average, amount to only about half of per pupil expenditures in the highest-spending states. Kentucky, the state at the seventy-fifth percentile of states' school spending distribution (state and local funds²), spends only 72 percent of what Wisconsin, the state at the twenty-fifth percentile spends. The highest-spending districts in Kentucky allocate less than the lowest spending districts in Wisconsin. And the poorest children in high-spending states receive an education richer in resources than the wealthiest children in low-spending states. In general, even if all within-state spending were equalized, high-poverty districts in rich states would

spend much more than low-poverty districts in poor states. New Jersey, for example, spends, on average, two and a half times as much per pupil as Mississippi. Thus, even if all intrastate school spending were equalized, interstate inequalities that are as significant, if not more so, as intrastate inequalities, would remain.

While there has been considerable policy focus on intra-state school spending inequality, interstate spending inequality has barely changed in over a generation. In 1996–97, the coefficient of

eral aid to education programs, notably Title I, do little to ameliorate interstate spending inequality and, because Title I distributions are adjusted to existing per pupil spending levels in states, may actually exacerbate it in some cases. States that already have high per pupil spending receive more federal dollars per pupil in Title I funds than states that have low per pupil spending.

It could however, be a unique and necessary federal role to equalize per pupil spending between states, with the federal government subsidizing elementary and secondary education in low-spending states. This sounds simple, but a number of complex issues must be addressed to make such a proposal a reality.

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variation of cost-adjusted (for student poverty and for regional differences in purchasing power) per pupil state and local spending by state was 16 percent. In 1969–70 it had been barely different, at 19 percent. For per pupil state and local spending at the seventy-fifth percentile, the ratio was 74 percent of spending by the state at the twenty-fifth percentile in 1969–70, barely distinguishable from the 72 percent figure cited above for Kentucky versus Wisconsin in 1996–97. An analysis of 1992 school district expenditures nationwide found that about 65 percent of the variance was interstate, and only 35 percent was attributable to differences within state. These percentages were about the same as twenty years earlier.

It has been difficult to address this problem because education is largely a state and local concern, with federal dollars accounting for only about 7 percent of school spending. Existing fed-

• First, the plan must take into account the fact that the purchasing power of the dollar varies between states. Thus, if high spending states are, as is likely the case, also states where the dollar's purchasing power is lower, differences in the nominal spending between states may, unadjusted, be misleading, not as great as the nominal differences would suggest.

- Second, the plan must take into account that it costs more to educate disadvantaged than advantaged children. A fair equalization plan should direct more federal funds to high-need than to low-need states. Because it is often the case that low spending states are also states with higher than average percentages of at-risk children, making an adjustment in a distribution formula for this purpose may increase the magnitude of the equalization task.
- And finally, a federal equalization plan must not create an incentive for states and localities to reduce their own effort in response to

additional federal aid. In order to assure that federal aid is used to “supplement, not supplant” state and local effort, a distribution formula must take account of whether low spending states have the capacity to increase their own spending, or whether their low spending results from low capacity.

Thus, first, to make the plan work requires an adjustment for price differences between states. For example, New Jersey spent \$9,700 per pupil in 1996 (the most recent year for which comparative data is available), while Mississippi spent only \$3,700. But living costs are lower in Mississippi. It costs less to hire a good teacher there than in New Jersey.

A precise calculation of such disparities is impossible because the dollar’s relative purchasing power in different places cannot easily be measured. But we can make estimates with formulas used by business groups to calculate cost-of-living allowances for executives moving from place to place. Such estimates show that the real spending gap is smaller, but still quite large: In “New Jersey dollars,” Mississippi spent \$4,900 per student in 1996, not \$3,700.

Second, because it costs more to educate poor children, subsidies should also be adjusted for a state’s poverty.³ Let’s assume that a poor child’s education needs 50 percent more money.⁴ We can then recalculate per-pupil spending, counting each poor child as “one and a half children.” On this basis, New Jersey (where 14 percent of the children were poor) spent \$9,200, compared with only \$3,300 in Mississippi (where 26 percent were poor).

Third, such gaps may not always result from different values placed by states on education. Mississippi has less capacity to finance schools, no matter how much it wants to do so. In 1996, total statewide personal-income-per-enrolled student in New Jersey was \$247,000; in

Mississippi it was only \$62,000 (again, in “New Jersey dollars”). But some other states may spend little, although they can afford to do more. So Congress should also adjust for a state’s capacity to provide for its own needs. States with high levels of personal income-per-child should not receive federal equalization grants, even if their per-pupil spending is low.

A well-designed program would distribute grants to states like Mississippi and New Mexico but probably not Florida because, despite having many poor children, its retired residents give it relatively high personal income per child.

On the other hand, on the basis of 1996-97 figures, California probably should then have received an equalization grant because, despite relatively high wealth, it had even higher relative numbers of children, many of whom are poor. Since 1996-97, however, California has fully emerged from the national recession of the early 1990s from which most of the nation emerged several years earlier. It is possible that, with personal income soaring, California’s personal income per enrolled child rose above the national average, subsequent to 1996-97. This example illustrates the importance, in the implementation of such a program, of ensuring that calculations are updated on a regular and frequent basis.

A state’s ability to pay for education (as measured, for example, by its total personal income per enrolled student, or “PIPS”) should become an explicit criterion for the distribution of federal education funds to states. How much federal spending should be enhanced depends on judgments, first, about what states should be expected to allot to education at a given PIPS level and, second, about what constitutes an adequate level of spending per child, and particularly per poor or near-poor child.

Because federal funds are so small a share of elementary and secondary education budgets, a federal policy to reduce interstate per pupil

spending inequality must augment as well as redirect federal spending. I estimate that a national program to subsidize all states whose mean state and local per pupil spending was below average, bringing these states' spending up to the national mean, would have cost \$23 billion in 1996. If subsidies were restricted only to those states that spent below the national average and whose PIPS was also below the national average, the total cost would be \$21 billion. If subsidies were restricted only to those states that spent below the national average and whose PIPS was less than 85 percent of the national average, the total cost would be \$11 billion. In 1996-97, federal elementary and secondary spending was about \$20 billion, so a program to correct these interstate inequalities could easily double federal education spending.

Proposals to increase the federal role in education have usually become enmeshed in partisan arguments. "Small-government conservatives" would likely resist a program by which the federal government equalizes per pupil spending between states because it would increase the education budgets of the federal government and of poor states. Possibly, conservatives fear that federal dollars inevitably threaten local control of education. But government should be no more limited in poor states than in rich ones.

Democrats typically want to increase spending for specific purposes like smaller classes. Thus, "big-spending liberals" may resist a block grant for federal equalization because they prefer to tell states how to spend federal dollars. But subsidized states should not be subject to more federal control than states where, because of low poverty or high wealth, federal aid is not needed. Thus, a federal equalization grant should be a block grant, not categorical. The only restrictions on the grant should be that it must be spent on public elementary and secondary education.⁵

An additional political consideration also comes into play here. One of the impediments to effective Title I funding formulas, in which federal dollars were directed in direct proportion (or more nearly so) to need, has been the political reality that Congressional funding authorizations are more likely to have support if funding is distributed to schools in as many Congressional districts throughout the nation as possible. Federal programs are easier to pass when they propose to distribute a little bit of money to a lot of places than when they propose to distribute a lot of money to a few, targeted places. This generalization does not always hold true, but it is often the case.

But the interstate equalization program proposed here may be politically perverse. It proposes a federal spending program (traditionally more often supported by liberals) whose beneficiaries are more often low-spending non-industrial states whose representatives are more often conservatives. This could create difficulties.

However, this obstacle may not be insurmountable. There are, after all, many existing examples of federal programs that are directed to states where need is greater, so the political realities just described are not always determinative. Also, as the California example above illustrates, there may be important industrial and more liberal states that, because of a very large number of poor children, would benefit from the plan. And finally, the block grant approach, suggested here, for directing unrestricted federal education funds to states, could make the proposal more palatable to conservatives in Congress.

Bringing spending in poor states up to an adequate level should be a federal role on which everyone can agree. This will not solve all the problems in our nation's schools, but it addresses one too long ignored.

A second opportunity for an appropriate federal role is in equalizing the supply of teachers nationwide.

It is well-known that, because of teacher retirements and an expected rising student enrollment, a national teacher shortage is looming. It has already manifested itself in many states.

Less well-recognized, however, is that the national teacher shortage is not uniform. Some states are experiencing a dire teacher shortage, particularly states where enrollment due to immigration has burgeoned, or where class size reduction programs have recently been implemented. But other states are net exporters of teachers, and are expected to continue to be so for the foreseeable future.

States that are experiencing a teacher shortage are places like California, Texas, or New York, where student enrollment is rising rapidly. With experienced teacher retirements expected to increase in the next ten years, these states cannot produce enough teachers to fill anticipated vacancies.

States that have a teacher surplus include, for example, North Central states like Iowa, Wisconsin and Minnesota, where a relatively stagnant population coexists with a highly developed public higher education system that graduates larger numbers of teachers than there are teacher vacancies. This imbalance, too, can be expected to continue.

No federal role is necessary to permit states with teacher shortages, like California, Texas, and New York to recruit recent teacher graduates from states like Iowa, Wisconsin and Minnesota. The ability of the former states to do so is simply a function of their being able to offer compensation packages and job opportunities that will attract these recent graduates.

But California, Texas, and New York are also states that have particular need of highly experienced teachers. These states would benefit from being able to attract teachers with 5 to 15 years of experience, or more, from teacher surplus states. Teacher surplus states can afford to lose some of these teachers, because they are not difficult to replace.

Of course, it is difficult to recruit mid-career teachers from one state to another because of the restrictions imposed on these teachers by spousal careers, community ties, and family responsibilities. But there may be a small, yet significant number of such teachers who are willing to relocate, and their willingness to do so could make a contribution towards solving the teacher shortage crisis.

For this small number of teachers willing to move, the main impediment is the lack of portability in teacher retirement plans. Unlike the defined contribution plans of higher education (most university faculty members are covered by a national defined contribution plan, TIAA-CREF) that encourage interstate mobility of faculty, elementary and secondary teachers are

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mostly covered by state-specific defined benefit pension plans, in which annuities upon retirement are calculated from a formula that typically relies on years of service credited in the pension plan, age, and final salary.

While each state's plan differs, teacher retirement plans typically require both an employee (teacher) and an employer (district and/or state) contribution. Teachers vest after five (in some cases more, in some cases fewer) years of service, meaning that their annuity upon retirement is guaranteed, based on accumulated service, even if they leave the state plan.

Typically, if a teacher leaves a state plan, he or she can withdraw the accumulated employee contributions made to date. Many states permit a teacher who moves into the state and joins its plan to use these withdrawn contributions from a prior state to purchase past years' employee shares of contributions in the new plan. But because no employer contributions can be withdrawn from the prior state plan by this transferring teacher, for rollover into the plan in a new state, the transferring teacher will not be credited with full pension credits, based on teaching experience, towards future retirement.

Certainly, a federal role is not essential here, because nothing prevents a teacher shortage state from voluntarily choosing to enhance its attractiveness to teachers by offering to make up the state and district contributions in the retirement account of a recruited experienced teacher. However, this could be expensive, and could, in some cases, exacerbate the interstate expenditure inequalities addressed in the first part of this paper.

A creative federal role would be to underwrite the transfer of employer pension contributions from teacher surplus to teacher shortage states for experienced teachers who choose to relocate from the former to the latter.

Some states (notably Rhode Island, Texas, and some others) have passed laws authorizing the negotiation of reciprocity agreements to permit such transfers to take place. In no case, however, has a reciprocity agreement actually been negotiated between states, because of a number of practical problems. This suggests a role for federal aid and intervention.

In some cases, it is difficult to negotiate reciprocity agreements because teacher shortage states have a much greater incentive to arrange the transfer of funds from a teacher's retirement plan in a teacher surplus state than teacher surplus states have an incentive to release these funds. Other practical problems that impede

individually negotiated reciprocity agreements mostly consist of plan provisions that are not equivalent from state to state. For example, in some states, teacher retirement plans now supplement social security while other states have declined to enroll public employees, including teachers, in the national social security system. In some states, retiree health insurance coverage (as a supplement to medicare) is funded as part of a teacher annuity, while in other states it is not. In some states, funding is sufficient to adjust annuities for inflation, while in other states there is no COLA provision. In some states, disability coverage is included in a pension plan, and in others it is not. And most importantly, of course, state teacher retirement systems guarantee different levels of defined benefit, so even if prior contributions (both the employer and employee share, including credited interest) could be transferred, the amount might still not be sufficient to credit a teacher for all of his or her prior experience.

An initial federal role here would have to begin by establishing a procedure for declaring some states to be in teacher shortage status and others to be in teacher surplus status. The declarations must be reviewed and revised on a regular and frequent basis. Federal law could then authorize the transfer of employee contributions from the retirement systems of teacher surplus states to the systems of teacher shortage states, and for a portion of the employer contributions (in many cases, this would be 100 percent) needed to fund the employer pension contribution for past service up to the level typically made for teachers in the receiving state. In cases where the sending state's employer and employee contributions were not sufficient to fund a full pension in the receiving state, the federal government could make up the difference, perhaps on a matching basis with the receiving state.

This would not be a very expensive program, primarily because, as indicated above, the family

circumstances of few experienced teachers in teacher-surplus states will permit relocation to teacher shortage states. But in the few cases where experienced teachers are available and willing to relocate, this relatively small federal intervention could help take a minor step towards alleviating a critical shortage in some places.

ENDNOTES

- 1 Research Associate, Economic Policy Institute; and National Education Columnist, *The New York Times*. Portions of this paper have previously appeared in Richard Kahlenberg, ed., *A Notion At Risk* (Washington, D.C.: Century Foundation Press, 2000) and Richard Rothstein, "Closing the Gap in State School Spending," *The New York Times*, January 5, 2000.
- 2 This and the estimates that follow are based on fiscal data from 1996-97.
- 3 Poverty may not be the most important factor indicating risk of school failure. "At-risk" students are most likely those with multiple risk factors, including poverty, racial minority status, birth to teen or single mothers, large number of siblings, and low parental education levels. Data are rarely available on these multiple risk factors, however. But there are data on statewide percentages of children in poverty. Therefore, in this paper, poverty is used as an admittedly imperfect surrogate for the multiple factors that place children at risk of school failure.
- 4 The estimates that follow of the burden to states of financing the education of poor children will be very sensitive to this assumption. Much of the conventional school finance literature utilizes an estimate of 20 percent, based largely on the historical pattern of Title 1 funding. However, there is no research evidence to suggest that the gap between outcomes of at-risk students and other students can be substantially narrowed with only a 20 percent increase in funds for at-risk students. The 50 percent figure, used here, also appears in conventional school finance literature, but not as frequently as the 20 percent figure. In recent research of the Economic Policy Institute, we estimate a program to substantially narrow the gap between at-risk and other students must include the following: smaller class sizes, more qualified teachers, health and other clinic services, summer school, a before-and after-school tutoring and activity program, and an early childhood and pre-school program. We estimate that the cost of these programs, in total, if applied on a school-wide basis to schools where at least 40 percent of enrolled students receive free or subsidized lunches, would be equivalent to about 150 percent to 200 percent more money than is typically spent on regular students.
- 5 I take no position here on whether a state should be prohibited from using federal funds for a voucher program.