

WebMemo



Published by The Heritage Foundation

No. 2171
December 12, 2008

Federal Education Bailout Is Not the Answer

Dan Lips

Earlier this week, leaders of the Miami–Dade school system and Broward County school board in Florida called on the federal government to provide a “bailout” for the area’s ailing school districts.¹

The lagging economy has resulted in declining tax revenues and ballooning budget shortfalls for many state governments and local communities across the nation. The National Conference of State Legislatures recently reported that state governments are facing \$137 billion in budget gaps over a two year period.² Thirty-eight states expect budget shortfalls for the 2009 fiscal year.³

The difficult fiscal climate is forcing states and localities to cut state services, such as public education funding, or increase taxes to raise new revenue. Some officials have proposed a federal bailout of state and local governments as an alternative to making difficult budget decisions. For example, the National Governors Association and a number of big city mayors have appealed to Washington for increased federal aid. As budget pressure increases on public school systems, education officials across the country may follow those from Miami-Dade and Broward County by requesting a bailout for public education. But what states, local governments, and schools need is not more federal funds but freedom from federal regulations that burden school districts with added costs and red tape.

Why a Federal Education Bailout Is Not the Answer. A federal “bailout” package for public school systems is unnecessary for a number of reasons.

First, people need to keep potential state and local budget cuts, including those affecting public education, in perspective: State government spending has been increasing steadily for decades. The National Association of State Budget Officers reports that state general fund expenditures have increased, on average, by 6.7 percent annually over the past 31 years.⁴

Second, government spending on public education has also increased over recent decades. The National Center for Education Statistics reports that, between 1994 and 2004, average per-pupil expenditures grew by 23.5 percent (adjusted for inflation).⁵ Between 1984 and 2004, real expenditures grew by 49 percent.⁶

Unfortunately, continuous spending increases have not corresponded with equal improvement in American educational performance.⁷ While a federal bailout for public education may allow state and local officials to avoid difficult budget decisions, experience suggests that increasing or maintaining higher levels of government spending is an ineffective policy strategy for improving educational performance.

Third, a federal bailout of state and local public education spending would only shift the tax burden

This paper, in its entirety, can be found at:
www.heritage.org/Research/Education/wm2171.cfm

Produced by the Domestic Policy Studies Department

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
(202) 546-4400 • heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

from state and local taxpayers to federal taxpayers.⁸ In the past year, Congress and the Administration have approved historic federal spending increases. This spending has added to the ballooning federal budget deficit and the federal taxpayers' growing long-term obligations. In difficult economic times, American families must often make tough budget decisions and reduce their spending. Government should not be any different.

An Alternative Solution: Emergency Regulatory Relief and State Flexibility. Instead of offering a federal education bailout, Congress and the incoming Administration should examine other ways that the federal government can help states and local governments in today's difficult fiscal climate. A promising solution would be to grant states emergency regulatory relief and greater flexibility in the potential use of funding provided through major federal programs like No Child Left Behind.

Under No Child Left Behind, the federal government distributes \$24.5 billion annually to states for education programs. However, funds are required to be spent on specific programs, and states must comply with federal regulations to receive funding. These regulations restrict states' ability to use funds on state priorities and create significant administrative costs for states, school districts, and public

schools. Since 2002, this compliance burden has grown significantly under No Child Left Behind.⁹

To assist states during the current economic downturn, the federal government could grant states greater freedom and flexibility over how federal education funding is used for programs like No Child Left Behind.

For example, the Department of Education could give states the opportunity to establish a charter agreement with the federal government. Under the terms of the charter, states would be free to receive federal education funding for NCLB without complying with federal regulations and program requirements so long as states agree to meet basic requirements, such as continuing to use Title I funding to assist disadvantaged students and maintaining academic and fiscal transparency through state-level testing and public reporting.

This approach would allow states to reduce administrative costs associated with federal program compliance, end ineffective or unnecessary programs, and direct more federal education funding to state priorities to improve education. Under normal circumstances, granting states greater freedom to allocate federal education funds would enable greater state-directed innovation and reform by allowing states leaders to best meet students' needs.¹⁰ However, in the current fiscal climate, such

1. Kathy Bushouse, "Broward Schools to Seek Bailout of Their Own," *South Florida Sun-Sentinel*, December 10, 2008, at <http://www.sun-sentinel.com/news/schools/sfl-flbbailout1210sbdec10,0,6722897.story> (December 11, 2008).
2. National Conference of State Legislatures, "New National Survey Reveals Escalating Budget Crisis for States," December 4, 2008, at <http://www.ncsl.org/programs/press/2008/pr120408SBUDec08.htm> (December 10, 2008).
3. See the National Conference of State Legislatures' chart at <http://www.ncsl.org/summit/budgetmap.htm> (December 12, 2008).
4. National Association of State Budget Officers, "Fiscal Survey of the States 2008," National Governors Association, June 2008, at: <http://www.nasbo.org/Publications/PDFs/Fiscal%20Survey%20of%20the%20States%20June%202008.pdf> (December 10, 2008).
5. Author's calculations. Average per-pupil expenditures were \$7,504 in 1994–95 and \$6,219 in 1984–85 in constant 2006–2007 dollars. See U.S. Department of Education, *Digest of Education Statistics: 2007*, table 171, at http://nces.ed.gov/programs/digest/d07/tables/dt07_171.asp?referrer=report (December 11, 2008).
6. *Ibid.*
7. Dan Lips, Shanea J. Watkins, Ph.D., and John Fleming, "Does Spending More on Education Improve Academic Achievement?," Heritage Foundation *Background* No. 2179, September 8, 2008, at <http://www.heritage.org/Research/Education/bg2179.cfm>.
8. Brian Riedl, "Why Government Spending Does not Stimulate Economic Growth," Heritage Foundation *WebMemo* No. 2208, November 12, 2008, at <http://www.heritage.org/Research/Budget/bg2208.cfm>.
9. Dan Lips and Evan Feinberg, "The Administrative Burden of No Child Left Behind," Heritage Foundation *WebMemo* No. 1406, March 13, 2007, at <http://www.heritage.org/Research/Education/wm1406.cfm>.

a policy would offer the added benefit of easing the fiscal burden on state and local governments.

The Path Forward. Members of Congress should resist calls by states and school districts for a federal bailout for public education. Instead, Congress should grant states greater freedom and flexibility in how federal funds for education are used while maintaining academic and fiscal transparency. State policymakers and local school leaders should

also resist calls to request a federal bailout for schools. Instead they should join state leaders like Governor Mark Sanford of South Carolina in calling for flexibility and freedom from federal regulations in place of new funding.

—Dan Lips is Senior Policy Analyst in Education in the Domestic Policy Studies Department at The Heritage Foundation.

10. Dan Lips, “Reforming No Child Left Behind By Allowing States to Opt-Out: An A-PLUS for Federalism,” Heritage Foundation *Backgrounder* No. 2044, June 19, 2007, at <http://www.heritage.org/Research/Education/bg2044.cfm>.