

Background

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Ten Reasons Why the “Economic Stimulus” Should Not Include Education Spending

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House Democrats recently unveiled draft legislation for the American Recovery and Reinvestment Act of 2009.¹ Widely touted as an economic stimulus package, the \$825 billion draft legislation included as much as \$142 billion for education.² This includes the creation of a \$79 billion State Fiscal Stabilization Fund to assist state governments in providing public education and other services. The act also includes significant spending increases for current and proposed federal programs for K–12, postsecondary, and early childhood education.

This approach is bad economic policy and bad education policy. An unprecedented federal spending increase for education will not improve economic growth—and past experience strongly suggests that this plan will not improve American educational performance. Instead of a massive federal spending increase, Congress should embrace fiscally responsible solutions to help states meet fiscal challenges and improve educational services.

The Proposed Federal Spending Increase: An Overview

The draft American Recovery and Reinvestment Act calls for an unprecedented increase in federal education funding. The proposed legislation includes at least \$142 billion in new federal funds to be disbursed over the next two years—nearly double the total outlays of the U.S. Department of Education in 2007.³ It nearly matches the level of all on-budget federal funds for education in 2006: \$166.5 billion.⁴

Talking Points

- The draft American Recovery and Reinvestment Act of 2009 calls for an unprecedented increase in federal education funding. The proposed legislation includes at least \$142 billion in new federal funds to be disbursed over the next two years—nearly double the total outlays of the U.S. Department of Education in 2007.
- This approach is bad economic policy and bad education policy. An unprecedented federal spending increase for education will not improve economic growth. Moreover, past experience strongly suggests that this plan will not improve American educational performance.
- Instead of a massive federal spending increase, Congress should embrace fiscally responsible solutions to help states meet fiscal challenges and improve educational services. Specifically, Congress should grant state policymakers the flexibility to prioritize how federal dollars are allocated to best meet their students’ needs.

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The proposal calls for this funding to be allocated to existing and new federal education programs:

Elementary and Secondary Education Programs. The American Recovery and Reinvestment Act would boost federal funding for existing federal K–12 education programs. Title I and IDEA—the two main federal K–12 education programs—are both marked for \$13 billion spending increases. The package also includes new funding for a series of other K–12 education programs, including Impact Aid (\$100 million), Technology Education (\$1 billion), Education for Homeless Children (\$66 million), Charter School Facilities (\$25 million), and Teacher Incentive Fund (\$200 million). Also included is a new \$14 billion program for school construction and modernization.

Postsecondary Education Programs. The proposal includes significant funding increases for higher education, including a \$1.5 billion increase for Pell Grant funding. It also includes \$6 billion for a new program to support “repair, renovation, and modernization” efforts at higher education institutions.

Early Childhood Education Programs. The package provides funding increases for early childhood education and care programs. Specifically, the proposal calls for \$2.1 billion in new funds for Head Start.⁵ It also includes a \$2 billion increase for the Child Care Development Block Grant program.

STEM Education. The spending plan also includes new funding to promote Science, Technology, Engineering, and Math (STEM) education. The plan calls for \$100 million in new funding for the National Science Foundation to develop new teachers in STEM fields and support research and devel-

opment to improve math and science instruction. The proposal would also provide \$2.5 billion to the National Science Foundation for a range of other projects, including support for STEM education at higher education institutions.

Stabilization Fund. The largest education initiative in the proposal is a \$79 billion State Fiscal Stabilization Fund to help state governments pay for public services, including education. At least 61 percent of the funds for this program must be used by states for education. To have access to these funds, states must comply with a range of government regulations for various education policies, such as a requirement that states maintain current funding levels and meet certain guidelines for “equity in teacher distribution.” The proposal includes a regulation to prevent funds from being used for school-choice programs, requiring that “no recipient of funds under this title shall use funds to provide financial assistance to students to attend private elementary or secondary schools.”

Top Ten Reasons Why this Education Spending Plan Is the Wrong Approach

1. Increasing federal spending on education will not improve the economy.

Supporters of the American Recovery and Reinvestment Act of 2009 highlight multiple reasons for supporting the \$825 billion plan. A top reason cited in the legislation is to promote “economic recovery.”

Policymakers should recognize that, like other deficit spending, dramatically increasing federal education spending will *not* stimulate economic growth.⁶ Proponents of additional government spending focus on creating new demand by putting

1. House Ways and Means Committee, January 16, 2009, at <http://waysandmeans.house.gov/media/pdf/110/sbill.pdf> (January 22, 2009).
2. Frank Wolfe, “House Democrats Unveil \$825 Billion Stimulus Proposal,” *Education Daily*, January 16, 2009.
3. Department of Education outlays totaled \$73 billion in 2007. National Center for Education Statistics, *Digest of Education Statistics: 2007*, Table 364, at http://www.nces.ed.gov/programs/digest/d07/tables/dt07_364.asp?referrer=list (January 22, 2009).
4. *Ibid.*, Table 361, at http://www.nces.ed.gov/programs/digest/d07/tables/dt07_361.asp?referrer=list (January 22, 2009).
5. Head Start appropriated \$6.9 billion in FY 2009. U.S. Department of Health and Human Services, “Head Start Program Fact Sheet: Fiscal Year 2008,” at <http://www.acf.hhs.gov/programs/ohs/about/fy2008.html> (January 22, 2009).
6. See Brian M. Riedl, “Why Government Spending Does Not Stimulate Economic Growth,” Heritage Foundation *Background* No. 2208, November 12, 2008, at <http://www.heritage.org/Research/Budget/bg2208.cfm>.

more government money into the marketplace. This mindset ignores the other side of the ledger: Deficit spending takes money out of the private sector, leaving less money available for individuals and businesses to borrow. In the long term, government's allocation of these resources is likely to be less efficient and will probably generate less productive economic activity than if those resources had been left in the private sector.

This proposal is simply another massive new spending plan. It is being proposed as an economic stimulus to have the legislation considered outside of the traditional budget process and expedite congressional approval.⁷

2. A federal bailout for state governments is irresponsible.

A central focus of this plan is to help states meet current fiscal challenges created by the recession and declining tax revenues. A growing number of states are facing budget deficits and are considering cutting spending on public services, including education. However, shifting the burden from states and localities to federal taxpayers is irresponsible, since funding public education is primarily a state and local, rather than federal, responsibility.

Current budget shortfalls follow years of regular increases in state spending levels. Proposed budget cuts should be placed in the context of today's historic levels of education spending. Per pupil expenditures in U.S. public schools have increased by 49 percent over the past 20 years after adjusting for inflation.⁸ State policymakers should be able to identify areas where education spending can be reduced without diminishing the quality of education.

Moreover, a federal bailout for states—which is what this bill would be—may only delay necessary adjustments in long-term spending projections. In

fact, the proposed legislation would *penalize* states that choose to review their spending priorities and decrease education funding. The plan would require states to use funds to restore fiscal year (FY) 2008 funding levels in order to qualify for federal aid. At a time when many states should be reviewing their long-term spending commitments, the federal government would be pressuring them to do just the opposite.

In addition, a state bailout may create moral hazard for state governments: If states with the greatest budget challenges receive an extra share of stabilization funding, this effectively—and perversely—rewards irresponsible spenders and penalizes state governments that have budgeted wisely.

3. Past experience shows that more K–12 spending does not significantly improve educational performance.

This plan is premised on the belief that higher spending on public education improves educational performance. But decades of experience have demonstrated the limits of increasing federal education spending. Since 1985, real federal spending on K–12 education has increased by 138 percent. But higher federal spending has not corresponded with equal improvement in American educational performance, as judged by long-term test scores and graduation rates.⁹ Moreover, experience at the state and district levels suggests that simply increasing funds for public education does not lead to improved student performance.¹⁰

In the area of STEM education, it is unlikely that additional federal funding will significantly improve American students' achievement in these critical fields. The Government Accountability Office (GAO) reported that the federal government spent nearly \$4 billion on more than 200 STEM programs that were spread across 13 federal agencies in

7. Ronald D. Utt, "Will Lobbyists Turn the Stimulus Package Into a Festival of Fiscal Greed?" Heritage Foundation *Background* No. 2232, January 22, 2009, at <http://www.heritage.org/Research/Budget/bg2232.cfm>.

8. Author's calculations. Average per-pupil expenditures were \$7,504 in 1994–1995 and \$6,219 in 1984–1985 in constant 2006–2007 dollars. U.S. Department of Education, *Digest of Education Statistics 2007*, Table 171.

9. See Dan Lips, Shanea Watkins, 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>.

10. *Ibid.*

2004.¹¹ The GAO also reported that the federal government had provided little information about the effectiveness of these programs.¹²

4. Past experience shows that federal early childhood education programs have not provided lasting benefits to disadvantaged children.

The proposal includes billions in new funding for early childhood education programs, including \$2.1 billion in new funding for Head Start and Early Head Start. American taxpayers have invested about \$100 billion in Head Start since 1965. The federal government currently spends \$6.9 billion—about \$7,500 per student—every year. Yet, here, too, there is little evidence to suggest that Head Start has delivered lasting improvement in outcomes for participating students.¹³ Moreover, recent government oversight evaluations have identified significant problems in Head Start's program management and governance.¹⁴ Experience suggests that new funds will not provide significant long-term benefits for participating students.

5. History shows that increasing college subsidies have not solved the real problem of higher education affordability.

Years of federal spending increases on higher education have not come close to solving the problem of college affordability. In the academic year 2006–2007, the federal government spent more than \$86 billion on student aid for postsecondary education—a real increase of 77 percent over what

was spent ten years ago.¹⁵ Yet paying for college tuition continues to present a significant challenge for many American families. Over the past decade, the real cost of two semesters at four-year private and public colleges increased by 29 percent and 41 percent, respectively.¹⁶ Some economists have argued that ever-rising federal subsidies for higher education contribute to the problem of rising college tuition prices by making American students less sensitive to price increases.¹⁷ While a \$500 Pell Grant increase per pupil (costing \$15.6 billion in total) may be a welcome benefit for eligible students, it is not a long-term solution for addressing the problem of college affordability.

6. School construction and modernization should not be a federal responsibility.

The spending plan includes \$20 billion for modernization of K–12 and higher education school buildings. This would give the federal government a new responsibility in education: funding and regulating construction projects. The proposed plan would require participating states to use funds to modernize school buildings while meeting a series of environmental regulations and guidelines. This section of the legislation incorporates aspects of the 21st Century Green High-Performing Public School Facilities Act, which passed the House of Representatives in the 110th Congress. At the time, the House Committee on Education and Labor cited creating jobs in the construction industry, making schools more energy efficient and reliant

11. Statement of Cornelia M. Ashby, Director of Education, Workforce, and Income Security Issues, "Higher Education: Science, Technology, and Mathematics Trends and the Role of Federal Programs," U.S. Government Accountability Office, GAO-06-702T, May 3, 2006, at <http://www.gao.gov/new.items/d06702t.pdf> (January 22, 2009).

12. *Ibid.*

13. See Krista Kafer, "A Head Start for Poor Children?" Heritage Foundation *Backgrounder* No. 1755, May 4, 2004, at <http://www.heritage.org/Research/Education/bg1755.cfm>.

14. See, for example, Chairman John Boehner (R–OH) and Rep. Michael Castle, "Taking Money From Children: Financial Abuse & Mismanagement in the Head Start Early Childhood Program," Committee on Education and the Workforce, U.S. House of Representatives, March 18, 2005, at <http://republicans.edlabor.house.gov/archive/issues/109th/education/headstart/moneyfromchildren.pdf> (January 22, 2009).

15. College Board, "Trends in Student Aid: 2007," Trends in Higher Education Series, p. 7, at http://www.collegeboard.com/prod_downloads/about/news_info/trends/trends_aid_07.pdf (January 22, 2009).

16. Author calculations. College Board, "Trends in College Pricing: 2007," Trends in Higher Education Series, at http://www.collegeboard.com/prod_downloads/about/news_info/trends/trends_pricing_07.pdf (January 22, 2009).

17. For more information on the problem of rising college costs, see Dr. Richard Vedder, "Over Invested and Over Priced: American Higher Education Today," Center for College Affordability and Productivity, November 2007.

on renewable energy, and reducing emissions that contribute to global warming as reasons for supporting the legislation.¹⁸

Policymakers should recognize that new school-construction programs saddled with excessive federal regulations will needlessly increase costs. If history is any guide, it is likely that the federal government will expand its new responsibility for funding and regulating school construction projects, with the end result being higher costs and less flexibility for states and taxpayers over the long term.

7. The new spending proposal does not address waste in the Department of Education budget.

The new spending package would not address waste or inefficiency in the Department of Education's current budget; instead, it would simply increase Department funding. In 2008, the federal government's Program Assessment Rating Tool initiative identified 47 education programs that should be eliminated, which would save taxpayers \$3.3 billion a year.¹⁹ Moreover, the Office of Management and Budget reports that the Education Department's 2008 budget included 758 congressional earmarks totaling \$327 million in appropriations. Before taking on new debt, the federal government should identify inefficiencies in the federal budget and reallocate funds to better uses.²⁰

8. New federal spending will come with strings and bureaucracy.

While states and local policymakers may welcome federally funded fiscal relief, they should recognize that new federal dollars will invariably come with new strings and bureaucratic costs. Current federal education programs already impose a significant compliance burden on states and localities.²¹ The proposed new spending includes a series of new regulations, including requirements that states

meet federal goals for achieving equity in the distribution of high-quality teachers, develop new data systems, and reform assessment protocols for specific student populations. The proposal would also position the Department of Education with more policymaking authority over state education policy, including a \$325 million "innovation fund" for the Secretary of Education to award grants to promote specific education goals.

The spending package also includes a series of new requirements for states to report how funds are allocated. While it is reasonable to maintain transparency over how federal dollars are spent, policymakers should recognize that a significant portion of federal funding will be required for administration and bureaucratic compliance, at the expense of pressing education needs.

9. The spending package would prohibit school choice, an effective strategy for improving education.

One troubling regulation included in the proposed spending plan is a prohibition that no funds be used to provide financial assistance to students to attend private elementary and secondary schools. Besides appealing to special interest groups that oppose school-choice policies, it is unclear why the spending plan—whose stated goal is to support state efforts to improve education—would include this prohibition. A growing number of states are using state funds to give parents the power to choose the best school for their children. A growing body of research suggests that school-choice policies are beneficial to participating children.

School-choice programs have also been shown to improve efficiency and save taxpayer money. A recent analysis found that the Milwaukee school voucher program, which helped 18,500 children attend private schools, saved Wisconsin taxpayers

18. See Dan Lips, "High on Green," *National Review Online*, June 6, 2008, at <http://article.nationalreview.com/?q=NzQ2ZGUxZTgxNDkyYzExMWQzODBiMDhjZmNkYWVvMDA> (January 22, 2009).

19. U.S. Department of Education, "Fiscal Year 2009 Budget Summary," February 4, 2008, Section III. "Programs Proposed for Elimination," at <http://www.ed.gov/about/overview/budget/budget09/summary/edlite-section3.html> (January 22, 2009).

20. U.S. Office of Management and Budget, "List of Bureaus for the Department of Education," at [http://earmarks.omb.gov/2008-appropriations-by-agency/agency_title/\[018\]_summary.html](http://earmarks.omb.gov/2008-appropriations-by-agency/agency_title/[018]_summary.html) (December 3, 2008).

21. Dan Lips and Evan Feinberg, "The Administrative Burden of No Child Left Behind," *Heritage Foundation WebMemo* No. 1406, May 23, 2007, at <http://www.heritage.org/Research/Education/wm1406.cfm>.

\$32 million in 2008.²² The reason for the fiscal savings is simple: Since the cost of educating a child in private school is lower than in public school, government saves resources when children use scholarships to transfer from public to private schools. As states explore strategies to meet fiscal challenges and improve efficiency, school-choice policies offer an attractive solution. The proposed federal spending plan would needlessly prohibit states from using potential funds to offer parental choice in education.

10. There is a fiscally responsible alternative strategy for helping states meet budget challenges: Grant states greater authority over how existing federal dollars are spent.

Instead of an unprecedented federal spending increase, Congress and the Obama Administration could amend federal programs to offer states and localities greater flexibility and autonomy in how federal education dollars are spent. No Child Left Behind could be reformed to grant states freedom from most federal program requirements, reducing costs associated with bureaucratic compliance and administration. This would allow states to shift federal dollars to the highest priorities to ensure that

students' needs are best met. This approach could be applied to other federal programs to give states the maximum flexibility to meet their current fiscal needs. Beyond helping state governments meet fiscal challenges during the current economic downturn, this approach would be an important step toward transforming the federal government's current role in education and encourage state-directed innovation.

Conclusion

Dramatic increases in federal education spending is the wrong approach for encouraging economic growth or improving American students' educational opportunities. Instead of increasing federal spending—and federal debt—yet more, the federal government should help states meet current fiscal challenges by offering state policymakers greater ability to prioritize how federal education dollars are allocated to best meet their students' needs.

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22. Robert Costrell, "Who Gains, Who Loses?" *Education Next*, Vol. 9, No. 1 (Winter 2009), at <http://www.hoover.org/publications/ednext/34686924.html> (January 22, 2009).