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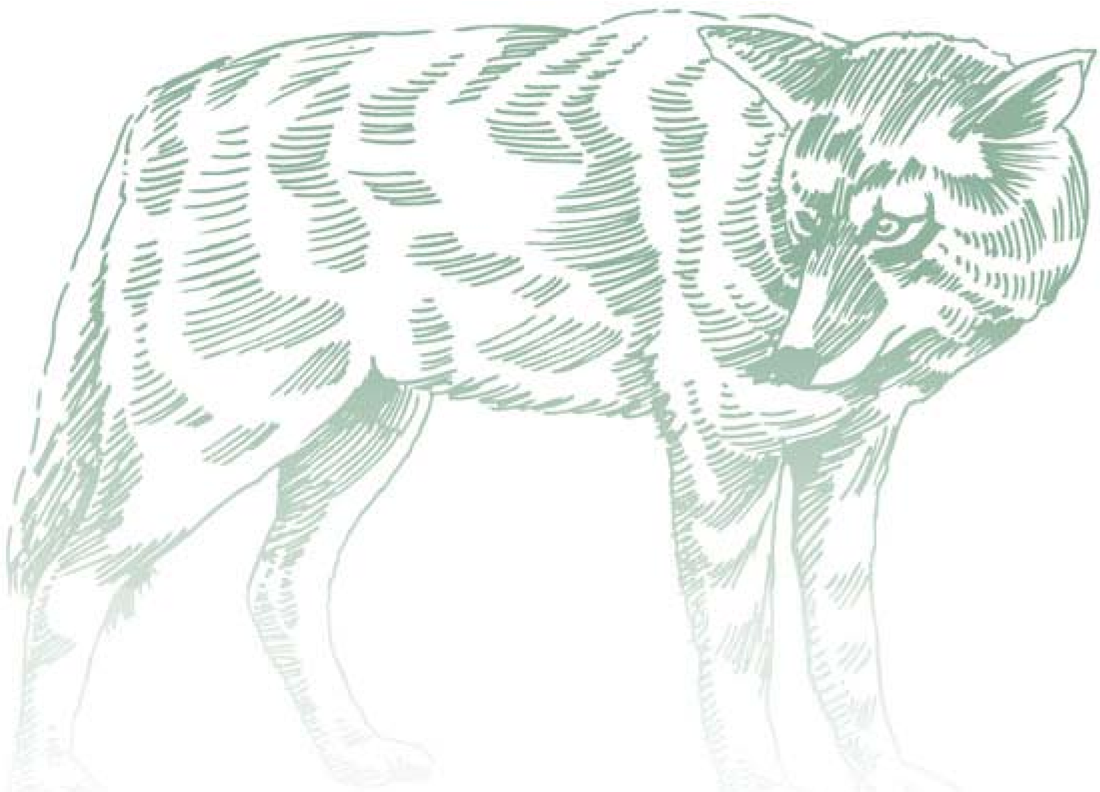
Commentary

Cry Wolf! This Budget Crunch Is for Real



By Eric A. Hanushek

We are entering the season for dire warnings about the loss of teacher jobs unless school funding is improved. U.S. Secretary of Education Arne Duncan has given high-level credibility to this story by providing administration support to Democratic Sen. Tom Harkin's new $23 billion stimulus bill in Congress.

Reporting about projected teacher pink slips is an annual game, dating back well before the current recession. Little note is made, however, when teacher employment actually continues to grow much more rapidly than student enrollment. In the most recent data, for example, we see that student enrollment in 2007 is 22 percent greater than in 1990, but teacher employment is 41 percent greater. Since 2000, the comparable figures are 5 percent for growth in enrollment and 10 percent for teachers.

While the public is starting to be suspicious, it still gives schools a PR advantage in the political jockeying for funds. But the other side is equally interesting. Schools have found the “crying wolf” strategy always effective and thus have never really thought much about how to adjust to a leaner budget.

"Schools might consider adjusting in ways that actually leave them better off in the future."

That having been said, this recessionary period may be different. The fall in state and local revenues has been serious, saved only by approximately $100 billion in federal stimulus funds for schools. Although the data are hard to find, it appears that this stimulus money held off any significant fiscal adjustments for schools, again allowing them to skate through without responding to fiscal restraint.

Various numbers are thrown around of from 300,000 to 600,000 jobs saved by the funds from the American Recovery and Reinvestment Act. The only thing clear from the available data is that school districts got a reprieve from making any really distasteful decisions, such as letting go significant numbers of teachers. These funds were mainly used as replacement funds for reductions in revenues from state and local sources, allowing schools again to do just what they had always done: They hired the same number of teachers that they previously intended to hire.

The problem is that the ARRA was supposedly a one-time fix, and the current world is not the same as before the recession. First, the recession has not fully passed, and tax revenues have not bounced back to previous levels. Second, in the absence of the legislation promoted by Sen. Harkin and Secretary Duncan, federal funds will revert to their prior level, leaving a real hole in school budgets.

The instincts of schools are again to cry wolf—hoping that somebody or something saves them from the real wolf. Let’s consider alternative futures.

Future 1. (Unlikely) The economy makes a miraculous recovery, returning us to prerecession levels and requiring no adjustment by schools.

Many school personnel are willing to bet on this, because it requires little in the way of change. Unfortunately, few economists believe that this will occur in the next six months, and even if it did, the revenues would not recover quickly enough to bail out schools and eliminate the need for further adjustments.

Future 2. (Also unlikely) Congress passes the Harkin legislation, the schools are bailed out, and the economy fully recovers.

This permits schools to return to keeping all of their current teachers and adding more to provide for new programs. Without a full economic recovery, the federal government would again be asked (for a third time) to provide a special appropriation to save teacher jobs, and we return to start.

Future 3. (More likely) Congress passes the Harkin legislation and the schools are bailed out, but Congress also credibly commits to not providing any further bailouts.

This possibility is more interesting to contemplate, because it essentially asks schools to deal with a future budgetary situation in which they cannot be assured of having growing budgets and may even have to live within more restricted budgets. (This would be like asking what schools might have done, when they originally got one-time stimulus funds, instead of playing chicken with the fiscal gods.)

The standard solution for schools is doing nothing other than starting a public-relations campaign about the future while hoping for being somehow saved. This is equivalent to trusting that the federal stimulus will be a permanent increase in federal funds.

But, alternatively, schools might consider adjusting in ways that actually leave them better off in the future.

The first-best solution, based on several decades of consistent research findings, is to lay off ineffective teachers selectively while letting class sizes drift up a little. This policy recognizes that a small change in class size, while having commensurately small to no impact on student achievement, has large impacts on budgets. An increase of two students per class typically amounts to a savings of some 10 percent in per-pupil spending, more than most estimates of the current fiscal shortfalls.

Any Harkin bailout could be used (could be required to be used?) to pay severance packages for ineffective teachers. When the bailout ends, the schools would be in a stronger financial position because the permanent teacher workforce would be reduced by the slightly larger class sizes, and this workforce would be of higher quality.

The teachers' unions have opposed such adjustments. First, there would be fewer union members. Second, they do not like the idea of making distinctions among teachers based on effectiveness. They prefer a simple rule—"last in, first out," or LIFO. After all, the heart of the union is the more experienced teacher.

The unions can often block the selecting-out of ineffective teachers. If they do, the obvious alternative would be using stimulus funds to induce early retirements, that is, moving to "first in, first out," or FIFO. The unions often say disdainfully that this is a plan to replace expensive teachers with lower-salaried teachers. And they are exactly correct.

One of the most consistent education research findings has been that there is no systematic impact of teacher experience past the first two or three years. The average fifth-year teacher is just as effective as the average 25th-year teacher. Under this policy, then, expected achievement would be unaffected, but the wage bill after the Harkin stimulus would be smaller.

To be sure, there are wide differences in teacher effectiveness at all levels of experience, making this plan clearly inferior to using direct information about teacher effectiveness. But if we are unwilling to make quality judgments, we should go to the second-best solution of making decisions that have no average effect on student outcomes but that save money.

Which brings us to another possible future:

Future 4. (Most likely) There is no additional round of federal stimulus funds, forcing schools to accept reduced budgets this fall.

In this future, schools have little hope but to allow some increase in class sizes by laying off teachers. Here LIFO has its biggest bite. Dealing with a shortfall through last in, first out implies laying off the maximum number of teachers, since the last in are the lowest-paid. This strategy might have the biggest PR value, because a large number of families will be incensed by losing a good teacher to budget cuts. But it is also the strategy that maximizes the long-term management problem. Again, the alternative is to use slightly larger increases in class size to pay for severance packages to ineffective teachers.

I of course anticipate howls of protest over using information about cost in making schooling decisions. The normal phrasing is that "we should not balance our budget on the backs of our students; we cannot afford to cut back on investments in schools." But in reality, what we cannot afford is to ignore how decisions affect students. We should worry about jobs for teachers, but we should first and foremost worry about the kids. Sensible management is not incompatible with thinking about student outcomes, and it *is* compatible with dealing with fiscal issues in a responsible manner.

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Vol. 29, Issue 32, Pages 32,40