

The Benefits of Increased School Spending

OVERVIEW

Does money matter for schools? This controversial topic of debate originates with the influential 1966 Coleman Report that found no connection between how much money is spent per student and test performance. IPR economist **Kirabo Jackson** leads a study that takes a fresh approach beyond just examining K-12 standardized test results to observing long-term effects, such as how much students earn as adults. Examining changes in K-12 public school spending due to school finance reforms in 28 states, Jackson and his colleagues find strong ties between increased school spending and positive outcomes.

FINDINGS

Increased spending raises graduation rates and boosts adult income. When a district's per-pupil spending increased by 10 percent, those exposed to the increases across all 12 school-age years, i.e., those 5 years old or younger at the time of the increase, completed more years of school—and as adults, they earned more and were less likely to be poor. For example, in 2012 schools spent \$12,600 on average per pupil. Jackson's findings suggest that a permanent 10 percent spending increase—or an increase of \$1,260 per student overall—would lead to 7 percent higher wages at age 40 and a 3 percentage-point lower likelihood of adult poverty among those exposed to the spending increases across all 12 years of their public school education.

POLICY TAKEAWAYS

- When per-pupil spending increased, students had:
 - higher graduation rates
 - higher adult wages
 - a lower likelihood of adult poverty
- Low-income students benefited most from increased spending.



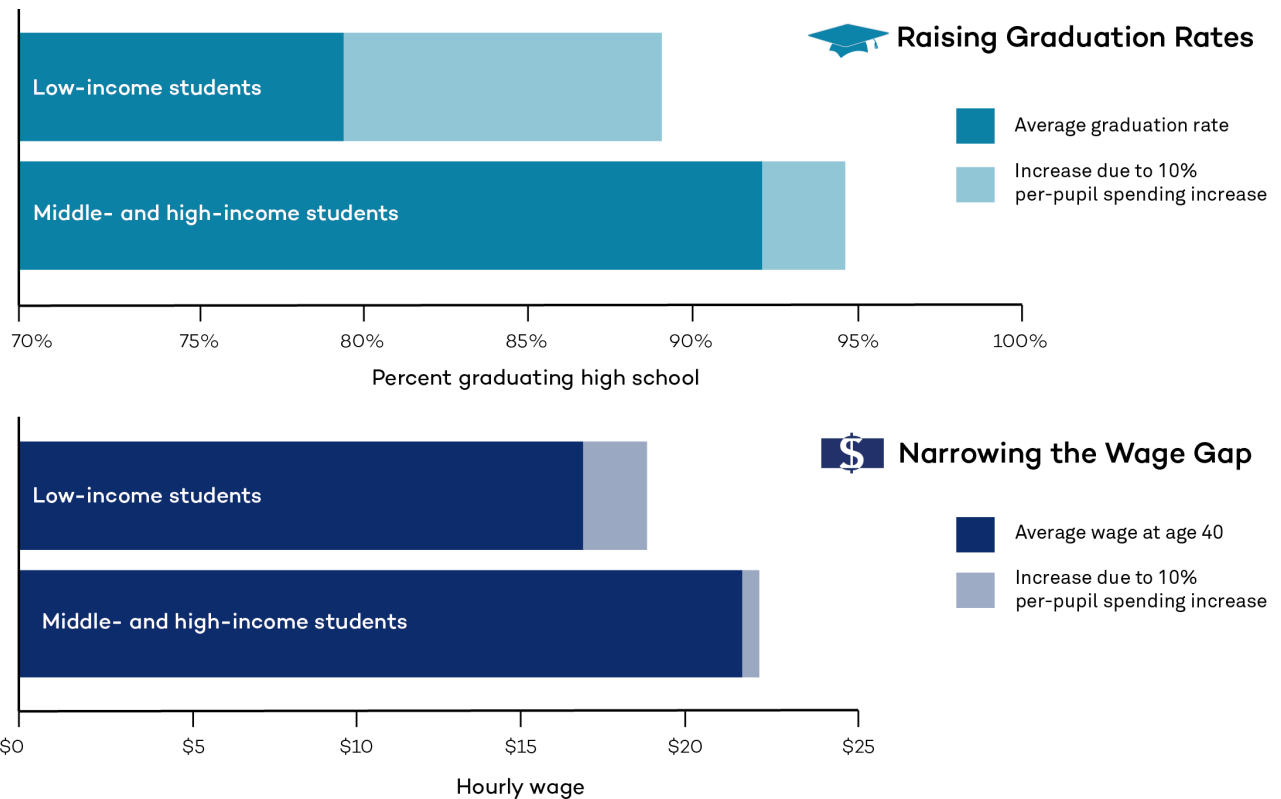
IPR economist **Kirabo Jackson** focuses on the economics of education, with research covering teacher labor markets, teacher effectiveness, and how school spending affects student outcomes.

Low-income students benefit most from increased spending. On average, these students spent about six more months in school, were 10 percentage points more likely to graduate high school, had 13 percent higher wages as adults, and were 6 percentage points less likely to live in poverty. Farther out, their family income increased by 17 percent.

It matters how the money is spent. Schools primarily spent the extra money on instruction and support services. When a district increased spending by \$100 due to reforms, spending on instruction increased by about \$70, and spending on support services increased by about \$40 on average. This higher spending was associated with lower student-to-teacher ratios, longer school years, and increased teacher and other support salaries. These benefits, Jackson and his colleagues explain, might help schools attract and retain more qualified instructors, counselors, and social workers.

The estimated benefits of increased school spending justify the higher spending. Jackson and his colleagues calculate an approximate cost-benefit ratio of 1-to-2. For every additional dollar invested in schools, there is a return on investment of \$2 in additional future earnings by the student.

School Spending Improves Long-Term Outcomes, Especially for Low-Income Students



METHODOLOGY

The school finance reforms that began in the early 1970s and accelerated in the 1980s caused some of the most dramatic changes in the structure of K-12 education spending in U.S. history, with state supreme courts overturning property tax-based school finance systems in 28 states between 1971 and 2010. Jackson and his colleagues track the large spending increases that resulted from these cases to examine if children who were in school during or after the reforms were passed have better outcomes than children who were too old to be affected by the reforms. They look at educational attainment and adult earnings to assess the impact of the school finance reforms rather than standardized test scores, which are not necessarily good measures of learning or likely economic success.

REFERENCES

Jackson, C. K., R. Johnson, and C. Persico. 2015. The effects of school spending on educational and economic outcomes: Evidence from school finance reforms. *The Quarterly Journal of Economics* 131(1): 157–218.

FOR MORE INFORMATION:

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FACTS AND FIGURES

- When school spending rose a total of 10 percent across all 12 years of public school, graduation rates increased 7 percent.
- Students exposed to this spending increase had 7 percent higher wages as adults and a 3 percentage-point lower risk of adult poverty.
- Low-income students benefited the most from increased spending: They experienced a 10 percent increase in high school graduation rates, 13 percent higher wages at age 40, and a 6 percentage point lower likelihood of living in poverty.
- For every additional dollar spent on schools, the researchers calculated a \$2 return on investment.

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