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The Heartland Report on School Finance Reform for Illinois

Part 1

A Reply to the Governor's Commission on Education Funding

By

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Background

About The Heartland Institute

The Heartland Institute is an independent, nonprofit, and nonpartisan research institute devoted to meeting the information needs of the nation's elected state and local officials, journalists, and the interested public.

Founded in 1984, The Heartland Institute has published seven books, 72 *Policy Studies*, and over 300 *Perspectives*. Heartland's participation in Illinois' school reform debate began in 1986 with commentaries on private alternatives to the Chicago Public Schools. In 1986, 1988, and 1989, Heartland published seminal research on independent schools in Chicago's center city, teachers in private practice, and expenditure and size efficiencies of public school districts. In 1988, Heartland copublished *We Can Rescue Our Children*, a book advocating reform of Chicago's public schools. In 1991, Heartland published *Rebuilding America's Schools*, an educational choice design manual.

The Heartland Institute has a full-time staff of eight people working out of offices in Palatine, Illinois (a Northwest suburb of Chicago). During 1996 it expects to raise and spend approximately $1 million. For more information, write to The Heartland Institute, 800 East Northwest Highway, Suite 1080, Palatine, Illinois 60067; call 847/202-3060; or visit our site on the Internet at http://www.heartland.org.

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Introduction

In his January 1996 State of the State address, Governor Jim Edgar told legislators:

> We rely too heavily on property taxes to fund education in Illinois. It is time to squarely address these issues. And I am optimistic you and I can do so during this legislative session.

One month later, the Governor's Commission on Education Funding released its report calling for, among other things: Increasing the state's share of school funding to 50 percent of a "foundation" level of approximately $4,225 per pupil; reducing the range of variation in funding among school districts; granting $1.5 billion in local property tax relief; and placing a constitutional amendment on the November 1996 ballot calling on lawmakers to implement these policies.

> Sound research on taxes and schooling contradicts many of the Commission's recommendations.

The Governor quickly endorsed the Commission's findings and proposed raising the personal income tax from 3 percent to 4 percent and the corporate income tax from 4.8 percent to 6.4 percent. Approximately three-fourths of the $2 billion in new revenue would go toward property tax relief, while the remaining $400 million would be used to meet the state's new funding responsibility.

Members of the Governor's own party have expressed displeasure with the proposal, and as of this writing were unwilling to allow the proposed constitutional amendment to appear on the November 1996 ballot. In particular, they contend that the proposed amendment's property tax relief language is vague and misleading, and that placing the measure on the ballot in November, when the entire House and one-third of the Senate is up for reelection, is poor politics.[1]

Although journalists have been quick to claim otherwise,[2] there are good reasons besides election-year politics to reject the Commission's recommendations. Sound research on taxes and schooling contradicts the many of the Commission's recommendations. While we disagree with the Commission on many specifics, we nevertheless endorse several of its recommendations. These include its calls for linking funding to performance, for academic standards, for substantial property tax relief, and for a constitutional amendment to protect taxpayers.

Unfortunately, the press has ignored these aspects of the Commission's report, and instead have used the report's release as an occasion to repeat a series of myths and debatable propositions about education in Illinois,[3] including:

Myth: Illinois underfunds its schools.

Illinois' estimated per-pupil spending in 1995-1996 is $6,501, the tenth highest spending level of the fifty states. The Commission's report calls for offsetting any increase in state funding "by a nearly equal amount of reduction in local property tax levies." (page 22)

Myth: Illinois is a low-tax state that can afford to spend more on its public schools.

Using the most comprehensive measurement available, Illinois' total tax burden is above average, and its business taxes are significantly higher than national averages. Increasing state taxes would drive away businesses and prosperity.

Myth: Elected officials are too cowardly to support increases in state taxes.

The Commission blames "a continuing decline in public confidence and trust," and we agree. (page 3) It requires courage to stand up to the Illinois Education Association, American Federation of Teachers, and other advocates of "business as usual." Both unions recruit and finance the campaigns of candidates running against elected officials who vote against tax hikes.

Myth: Voters and taxpayers support higher taxes for public education.

National and state opinion polls reveal that voters are dissatisfied with the quality of their public schools,[4] believe taxes are too high,[5] and would enroll their children in private schools if given the chance to.[6] Governor Edgar's easy victory over Dawn Clark Netsch in the 1994 general election, and Al Salvi's victory over Bob Kustra in the 1996 Republican primary, are indications that the public does *not* support higher taxes even when they are packaged with the promise of better schools.

It required an out-of-state newspaper, *The Wall Street Journal*, to observe that the Governor does not "understand the true nature of public tax sentiment," and to give voice to those taxpayers who felt "mugged by elected officials who say they won't raise taxes during the campaign, then suddenly discover the 'need' to do so in office."[7]

This reply to the Commission tracks the organization of its own report. Our goal was to produce a comprehensive report on school finance in Illinois that can serve as a reference for future debate and policy decisions. A second report by the same authors, also published by The Heartland Institute, advances an alternative reform plan to put Illinois on a course to having a world-class school system. We hope to work with members of the Commission and many other individuals on this urgent task.

1. Why do public schools fail?

According to the Commission, the first principle of school reform is to "ensure a quality eduation system." Such a system, the Commission says, would include many things:

(1) "a stronger link between academic achievement and funding"

(2) "clearly defined academic standards"

(3) "a reliable student and school assessment system"

(4) "a strong accountability system"

(5) "the resources necessary to provide a quality education"

(6) "incentives for improved performance"

(7) "a statutory framework that provides flexibility and fosters innovation"

Many of these features are desirable, and few observers familiar with Illinois' public schools would disagree that they are usually absent today. The Commission, then, is correct when it concludes:

> Few observers familiar with Illinois' public schools would disagree that these features are often absent today.

> Currently, there is little relationship between how education is funded and academic achievement. No system exists for rewarding schools which demonstrate improved results, and a satisfactory system has yet to be implemented to intervene in schools that consistently fail to meet standards. (page 8)

It is disappointing that the Commission chooses, at this point, to be silent on the subject of *outputs*, either of the current school system or of the system it seeks to help create. It does not refer to recent test scores in Chicago, statewide, or nationwide, all of which show little change despite substantial funding increases. There is no discussion of the shocking corruption, waste, and mismanagement in the state's largest school system, abuses that somehow escaped the attention of the city's leading civic organizations and

Why do Illinois' public schools fall short of the goal of being a quality education system?

The Commission's report does not explain *why* the current system -- filled as it is with talented and conscientious people -- has failed to achieve the desired results. Careful examination of the Commission's policy recommendations suggests to us that the Commission *simply doesn't know.* But how can you fix something if you do not know how or why it is broken?

How can you fix something if you do not know how or why it is broken?

The failure of public schools has been pondered and explained by many respected scholars and policy analysts. These experts do not agree on everything, of course. But three complementary explanations -- from sociologists, political scientists, and economists -- have gained widespread acceptance among scholars.[8] If the Commission had begun its work with a clear understanding of the causes of the current failure, we believe its recommendations would have been much different.

The sociological explanation

Sociologists, sometimes with the help of psychologists and labor economists, have tried to understand why some schools develop cultures that favor academic excellence and good study habits, while others have cultures that are destructive of these ends. This research has identified three factors that appear to play significant roles.

Norms that discourage academic achievement

In many schools, particularly middle schools and high schools, students face intense pressure not to study hard. The reason is that students view studying as work, and there is a shared interest in diminishing the amount of work required to get passing grades. Since students are generally issued grades on a curve, the majority of students will put pressure on the highest achieving students to keep their scores down. The result is described by the late University of Chicago sociologist James S. Coleman:

[I]n middle schools and high schools, across the socioeconomic spectrum

Teachers are in a weak position to challenge the anti-academic norms that develop in a school. Theodore Sizer,[10] Chester Finn,[11] and many others have observed that teachers are asked to *set* standards as well as *push* students to reach them. Setting high standards creates more work for the teacher, means asking students to work harder, and perhaps requires that substandard results be reported to parents and principals. Teachers are tempted to offer students lower standards in exchange for orderly and friendly conduct in classes, and to avoid unpleasant confrontations with students, principals, or parents. All sides win (but only in the short-run) in what Finn has called "this unholy marriage of low expectation and high marks."[12]

Teachers are in a weak position to challenge the anti-academic norms that develop in a school.

Parents are often unable to intervene because they are not told that their children are taking easy courses or could get higher grades if they applied themselves. Students have little incentive to tell, since doing so increases their work loads. Principals rarely intervene because popular teachers with an easy rapport with students are more likely to have more orderly classrooms and less likely to generate complaints from parents. Guidance counselors receive positive feedback when students maintain high grade point averages, but negative feedback if they take challenging courses and cannot keep up. Coleman, once again, summarizes the situation precisely:

> The disparities in performance [among students] give rise in schools to strong egalitarian anti-competitive sentiments -- from teachers, from students, from parents, and from educational policy-makers. This in turn has produced, given the way schools are currently organized, continual reductions in standards as schools have become more and more inclusive.[13]

Barriers to parental involvement

Parents are often locked out of meaningful involvement in their children's education, even though sociologists and psychologists have found that parental involvement in a child's schooling is closely associated with increased academic achievement. For example, in 29 controlled studies involving deliberate cooperative efforts by parents and educators to modify academic conditions in the home, 91 percent of the comparisons favored children in such programs over nonparticipating children.[14] The average measurable effect of these parental involvement programs was twice that of government agencies into the private realms of childrearing and teaching values. This conflict is most severe when the parents have conservative values, since government employees often embrace liberal values. But it can exist for any family that values privacy and limits on government power.

> "Sometimes educators feel that it is simply impossible to jump the hurdles, remove the barriers, and solve the real problems that prevent them from viewing families as resources for promoting children's learning."
>
> -- *Joyce L. Epstein*
> Johns Hopkins University

In January 1991, a special section of *Phi Delta Kappan* was devoted to the concepts of partnership and parent involvement with schools. In all, 43 pages of case studies, action plans, proposals, and guidelines (including a flattering piece on Illinois' Urban Education Partnership Grants by a consultant for the Illinois State Board of Education) were presented. Yet in the opening essay, Joyce L. Epstein, a professor of sociology at Johns Hopkins University, admitted:

> Today, most schools embrace the concept of partnership, but few have translated their beliefs into plans or their plans into practice. Sometimes educators feel that it is simply impossible to jump the hurdles, remove the barriers, and solve the real problems that prevent them from viewing families as resources for promoting children's learning.[15]

Later in the same report, Frank Nardine (University of Wisconsin - Milwaukee) and Robert D. Morris (Medical College of Wisconsin-Milwaukee) add:

> Despite nearly 25 years of federal legislation and support for parent involvement, despite a plethora of findings supporting the positive outcomes of greater home/school collaboration, and despite parents' interest in more meaningful participation in the education of their children, most states have not developed adequate parent involvement policies, passed enabling legislation, or produced written guidelines.
>
> Today's parents increasingly desire a voice in the educational process. Legislators and state and local school officials need to view parents as legitimate partners in their children's education. In order to guarantee

State laws will not help if public school teachers and administrators have a condesending attitude toward parents, or believe parents should rubber-stamp whatever decisions are made by "experts," or believe, finally, that the focus of the programs should be to change what *parents* do rather than what *teachers and administrators* do. How do we change these attitudes and beliefs? We return to this question many times later in this report.

The role of communities

Some of the reasons why anti-academic achievement norms are allowed to stand, and why parents are often excluded from meaningful participation in school programs, involve the relationship between a school and its community. Parochial and independent schools, predicted James Coleman, should work where public schools often fail because they create "communities of interest" among students, parents, and educators based on shared values, voluntary selection, and a commitment to student achievement.[17]

> Political interference and regulation by various state and national entities take control, and therefore accountability, away from principals and teachers.

Coleman and others have, in fact, found that private school students achieve at significantly higher levels than students attending public schools.[18] These differences persist even when socioeconomic background (the income, occupation, education, religion, and race of parents) is statistically controlled for.[19] These differences are all the more remarkable because per-pupil spending by private schools average one-third to one-half that of the average public school.[20]

Why do public schools often fail to create community support for students, teachers, and the learning process? One reason is that attendance at the school is not voluntary but compulsory, so some older students are likely to be present against their wills, and hence are rebellious and detached from the school's academic mission.

Teachers and principals often have budgetary incentives as well as regulatory mandates to retain these students for as long as possible, despite the classroom disruption they cause. State and federal aid is generally allocated according to attendance figures, so adopting no fail or "social promotion" policies maximizes a school's income. But these policies also debase high school diplomas in the eyes of values but rather on geographic proximity, parents are less likely to know one another or to cooperate in monitoring their children's behavior in as well as outside school. When parents take an active interest in the policies of a public school, they are more likely to disagree on matters concerning curriculum and extracurricular activities, leading to confrontation as often as cooperation.[21]

> "People in education have not been exposed to competition -- to the risk of failure. So like any managers comfortable in a cartel, they cling tightly to the traditional 'givens' of their system."
>
> -- *Ted Kolderie*
> University of Minnesota

Coleman found that enrollment in private schools benefited minority and disadvantaged students more than students from middle- and upper-income families. Less advantaged students, Coleman found, benefit the most from the kind of community support and educational leadership that a small private school can deliver, and suffer most from the anonymity and disorder that may pervade public schools with high enrollments.[22]

The political science explanation

Complementing the sociological explanation for the failure of public schools is an explanation by political scientists, including University of Minnesota professor Ted Kolderie, John Chubb of the Brookings Institution, and Terry Moe of Stanford University. These authors believe that the institutional constraints created by political management of schools, particularly the *de facto* prohibition on overt competition for students among schools, is inimical to efficiency and accountability. For example, Ted Kolderie writes:

> Education has not had to innovate in order to survive. People in business may not welcome competition, but they accept the reality of it. So increasingly they assume the need for change. People in education have not been similarly exposed to competition -- to the risk of failure. So like any managers comfortable in a cartel, they cling tightly to the traditional "givens" of their system.[23]

John Chubb and Terry Moe, in their 1990 book titled *Politics, Markets, and* programs, political and regulatory oversight agencies, and often conflicting and unnecessary restraints on school-site personnel.

Using data from the High School and Beyond national study of school organization and student achievement, Chubb and Moe showed that "student academic gains are explained by four general factors: student ability, family SES [socioeconomic status], school SES, and school organization."[25]

Public schools, according to data from the High School and Beyond survey, are less likely than private schools to have the attributes of effective organization.

Examination of the school organization factor reveals that what is important is not *school policies* -- such as homework assigned, graduation requirements, or disciplinary policies -- but elements of *effective organization* such as "an academic focus, a strong educational leader, a sharing of decisionmaking, a high level of professionalism and cooperation among teachers, and respect for discipline among students."[26]

Public schools, according to data from the High School and Beyond survey, are less likely than private schools to have the attributes of effective organization. Chubb and Moe trace this to the heavy-handedness of bureaucracies and the clumsiness of politics as ways to correct problems and respond to parental concerns.

Voluntary enrollment, according to Chubb and Moe, makes private schools directly accountable to parents. In order to compete successfully against other private schools and "free" public schools, a school must be efficiently run, show genuine academic achievement, and give teachers and administrators the ability to respond quickly and effectively to parental concerns. Bureaucracy, complex rules and regulations, and inflexible school policies -- all traits of ineffective organization -- are incompatible with the requirements for success in a competitive marketplace.

The political science approach to understanding public school failure, in summary, focuses on why some schools are more effectively organized than others. Empirical research reveals that private schools tend to be organized for success, since otherwise they lose enrollment to schools with more effective organizations. Public schools are protected from this "natural selection" process, and consequently are more likely to have ineffective organizations. Attempts to impose the features of effective organization on public schools, through rules and regulations, have not been as effective as market among public schools is largely forbidden or, in the case of magnet schools, done only to settle lawsuits or to appease politically powerful constituencies. Each public school has exclusive rights to enroll students in its geographically defined district. Revenues raised through local taxes are given only to that district's public school, and not to private schools that might also enroll students in the district.

> Economic explanations of public school failure start out by observing that public schools are organized like a government-sponsored cartel.

Competition versus cartel

Cartels are able to raise prices and/or reduce the quality of service because their customers have no short-term exit option. In other words, customers are not free to choose a producer outside the cartel who could sell a better-quality good or service, or sell it more cheaply. Historically, cartels have been able to resist market forces because government policies restricted entry by potential competitors.[27]

Because they are government agencies, public schools are free to behave even worse than private-sector cartels. Seeking to maximize their profits, even the anticompetitive behavior of private firms will sometimes benefit consumers. Public schools, by contrast, are accountable only to school boards and elected officials, and therefore seek to maximize political gain, not parental satisfaction. Parents and students, the true "consumers" of education, suffer as a result.

In a study published in 1993, James G. Cibulka, professor of administrative leadership at the University of Wisconsin - Milwaukee, reported how four Chicago schools -- two public and two private -- responded to changing parental interests. One private school and one public school failed to respond quickly to substantial changes in the demographics of their neighborhoods. Cibulka reports:

> [M]arket firms generally experience negative consequences for failing to respond rationally to an important market problem, whereas nonmarket firms rarely do. The penalty for failure to satisfy customer wants is to be put out of business. These schools exemplify that principle: Academy of Our Lady experienced an enrollment decline because of its inability to respond effectively to a market challenge, while Curie Metropolitan High School, despite its shortcomings, had a thriving enrollment and felt no

the cost of local property taxes collected for the schools. Parents can and do "vote with their feet" by moving from districts with low-quality schools to districts with better-quality schools. Adults without children may shop for communities that do not make major investments in local schools.

While the potential for competition exists, it is severely limited by several factors. Private schools offer only limited competition to public schools. The former are primarily church affiliated and enroll about 12 percent of all students. Their share of enrollment has been relatively flat for the past two decades (despite declining public approval ratings for public schools), while their composition has shifted from a preponderance of Catholic schools to a roughly even split between Catholic and Protestant schools and a growing nonsectarian sector.[30]

Parents are often misinformed about the academic records of public schools. For example, SAT and ACT scores are relatively easily manipulated by controlling the number of students who take the test. Since they are taken only by high school seniors and do not test for many of the subjects that are taught in high schools, they are nearly meaningless for parents of younger students.[31] Also, "voting with one's feet" can be an expensive proposition and requires balancing school quality against a wide range of other considerations (proximity to work and family members, crime, taxes, housing costs, etc.) that have little to do with education.

Parents are often misinformed about the academic records of public schools.

Parents are free to send their children to private schools, but their decision to do so is anything but free. They must pay tuition while continuing to pay school taxes to support the public schools they have decided not to patronize. This "double taxation" poses a large financial barrier to private school enrollment growth and has contributed to the closing of many inner-city Catholic schools.

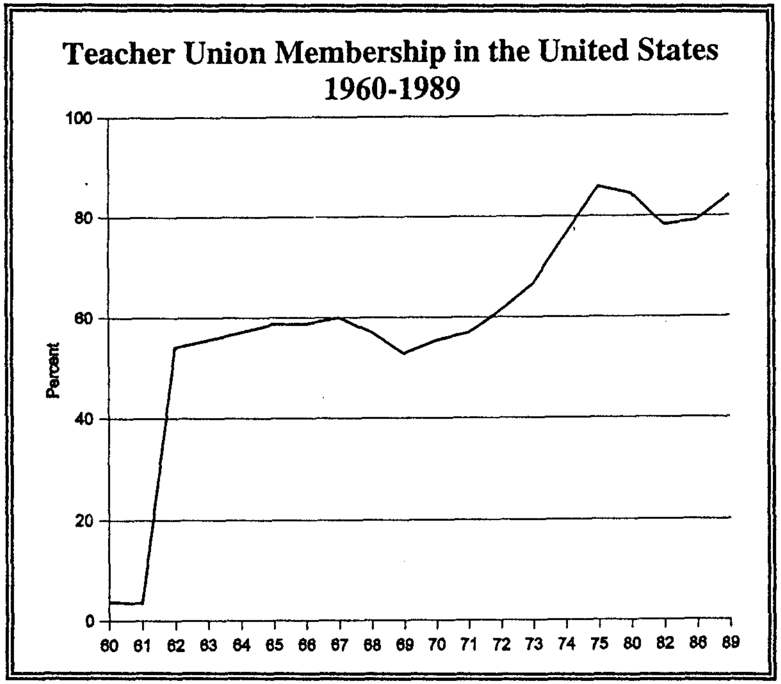
Teacher unions

Rent-seeking conduct -- where persons use their positions in administrative hierarchies to benefit themselves -- proliferates in public schools, just as it does in other heavily subsidized and uncompetitive industries such as mass transit and mail delivery.

education lobby and the sympathy that the media extends to educators become the decisive factors, rather than results.[33]

According to many economists, what Brimelow calls the "education lobby" has played an important role in the demise of public schools in America. University of Chicago economist Sam Peltzman, for example, recently conducted a careful state-by-state study of the period of greatest decline in student test scores, 1972 - 1981, and concluded:

> [T]he decline in [student] performance did go furthest in those states whose legislatures were most responsive to teachers unions and in which the pioneer union (AFT) scored its earliest success. However, early success by the AFT's initially reluctant rival (NEA) is associated with improved school performance in the 1970s. This is offset in the 1980s, and there is an unambiguously negative association of union growth and school performance in this period.[34]



Teacher membership in unions soared from less than 4 percent in 1960 to over 84 percent in 1989, making teaching the most heavily unionized occupation in the U.S. Two unions, the AFT and the NEA, account for nearly the entire teacher union membership in the country.

The negative relationship between teacher unionization and student achievement arises from the unions' opposition to policies and decisions that would improve the quality of public schools.

> many top teachers out of public schools, making it tougher for good teachers who stay to do their best work and leaving incompetents entrenched in many classrooms. And at a time when corporate leaders and others are calling on schools to hold students to significantly higher standards, the intransigence of the unions has slowed the pace of school reforms, eroding public confidence in the schools and spurring an unprecedented wave of tuition-voucher plans and similarly targeted initiatives.[35]

Teacher unions get their exceptional power by being, in the words of Peter Brimelow and Leslie Spencer, a "near-monopoly supplier to a government-enforced monopoly consumer."[36] This has enabled them to expand their membership and power even as other unions in the private sector have lost membership during the past three decades. Teaching is the only occupation that claims to be "professional" that also is significantly unionized.

> "The intransigence of the unions has slowed the pace of school reforms, eroding public confidence in the schools and spurring an unprecedented wave of tuition-voucher plans and similarly targeted initiatives."
>
> -- *U.S. News & World Report*

Teacher unions have used their uniquely leveraged position to skillfully manipulate government and the press. Charles J. Sykes, a senior fellow at the Wisconsin Policy Research Institute, recently described the influence of the NEA as follows:

> While occasionally assuming an adversarial posture to local school boards, it often controls these boards. Frequently, its positions are indistinguishable from those of state and federal departments of education.
>
> In some states, the teachers union has become the functional equivalent of a political party, assuming many of the roles -- candidate recruitment, fund-raising, phone-banks, polling, get-out-the-vote efforts -- that were once handled by traditional party organizations. The result in many states is that the legislatures, no less than the educational bureaucracies, function as wholly owned subsidiaries of the teachers union.[37]

With an annual budget for its central office alone of $238 million in 1991-1992,[39] plus millions of dollars more in PAC money given to state elected officials each year, the NEA is difficult to overestimate. Nevertheless, teacher unions are *not even mentioned* in the Commission's report.

Incentives

Critical to understanding why some schools fail is the role played by incentives. Eric Hanushek, professor of economics and public policy at the University of Rochester, wrote as follows:

> No matter what their field of endeavor, people respond to incentives. Because the incentives in schools bear little relationship to student performance, it is not surprising that schools have not yet improved student performance, despite constant reform pressures. Several programs are available that would connect incentives to performance -- either by linking teachers' and administrators' pay directly to some objective measure of the results they achieve with their students, or by letting parents and students themselves decide which schools best meet their needs and therefore most deserve their support.[40]

> "Because the incentives in schools bear little relationship to student performance, it is not surprising that schools have not yet improved student performance, despite constant reform pressures."
>
> -- *Eric Hanushek*
> University of Rochester

Linking teacher compensation to outputs is hardly a new idea: In 1972, Kenneth Boulding told the American Educational Research Association that "Educators receive their incomes mainly, let us be frank about it, from the by-products of custodial care and certification."[41] Writing two decades later, in 1995, Carolyn Kelley and Allan Odden, education professors at the University of Wisconsin - Madison, find nothing has changed:

consistently correlate with student learning gains. Teacher pay schedules are fixed by union agreements that typically prohibit merit pay, reward seniority over all other considerations, protect teachers from being dismissed for all but the most serious offenses, and forbid special compensation to outstanding teachers.[43]

School boards most often pay superintendents and other central-office administrators according to the number and salaries of other administrative staff that report to them. Principals are often paid according to the number of educational staff or students in their school. Most importantly, pay is essentially disconnected from results, creating little incentive to innovate or strive for improvement. These policies, typical of administrative hierarchies, are significantly at odds with how salaries are determined in the private sector.

Equally important, none of the personnel in a public school has an equity interest in the school. In other words, the teachers, principals, administrators, and school board members do not *own* their school, either outright (as in the case of a sole proprietorship) or through stock ownership (as in the case of a publicly held company). This has many negative consequences, including little incentive for investing in facilities or labor-saving technology; no access to private credit markets; and no way to measure the organization's bottom line (assets versus liabilities). Each of these consequences undermines the efforts of superintendents and school board presidents.

The cumulative effect of these policies has been to create incentives to multiply the numbers of administrative staff, hire and retain teachers irrespective of merit, and retain students however little they learn.

The cumulative effect of these policies has been to create incentives to multiply the numbers of administrative staff, hire and retain teachers irrespective of merit, and retain students however little they learn. These policies consume scarce funds while contributing little to learning. Nothing short of changing this structure fundamentally will bring U.S. schools up to world standards.

As bad as they are, the incentives faced by teachers are only part of the problem. As sociologists and psychologists have discovered, many students today feel they have little reason to study hard, take difficult courses, or care about high school grades.

factors related to learning revealed that the practice that had the largest overall average effect on learning was rewarding or reinforcing correct performance. (Family involvement and support were also highly effective in improving academic achievement.)[44]

John H. Bishop, director of the Center for Advanced Human Resource Studies at Cornell University, estimates that looser college admission standards and a narrowing of the gap between the wages of college graduates and high school graduates during the 1970s, may account for half the drop in student test scores during that period.[45] A reversal of this trend in the 1980s and 1990s, according to Bishop, may be partly responsible for stopping the slide in test scores.

Implications for the Commission's report

Had the Commission asked *why* Illinois' public schools fail to reflect any of the seven features of a quality school system, its three recommendations in this section of the report would have been dramatically different.

> We have seen very little improvement and even declines in some areas after decades of this style of incremental "school reform."

Instead of saying "the State Board of Education must continue its work to strengthen the accountability of the system and enforce the current law," the Commission would have acknowledged that this is probably a fruitless endeavor. There is little that state government bureaucrats working in Springfield can do to create a social bond between parents and school administrators, or to make teachers with lifetime tenure more interested in parental concerns, or to prevent monopoly school systems from taking their captive customers for granted.

Similarly, instead of recommending that "a financial incentive grant program should be implemented with the objective of rewarding all schools for their improvement attained over time," the Commission would have admitted that the basis for awarding such grants would necessarily be arbitrary, a clumsy attempt to create incentives for better teaching without addressing the underlying problems that lead educators to lower their expectations and inflate grades. (And is it not ridiculous to say at the outset that *all* schools, no matter how corrupt or resistant to change, should eventually receive state

The Commission makes one recommendation in this part of its report that the authors endorse: Establishing "clearly defined academic standards that identify what students should know and be able to do at different levels of the educational process." (page 8) Establishing such standards and measuring progress made to achieve them is essential if we are to "close the loop" among students, teachers, and parents. Objective test results act like prices in a market: they send information to each stakeholder in the system, letting them know what works and what does not, and who is doing the better job.

Unfortunately, the Commission mixes its call for academic standards with calls for "a strong . . . accountability process," by which it means allowing the state government to interfere in the operation of schools whose students fail to show acceptable levels of progress as determined by the state. This scenario hasn't worked in the past because of the corrupted incentive structures described earlier, and it won't work any better with a new set of exams.

Enforcing academic standards with a state-determined test and threatening state control of local schools has led to strong opposition to the Commission's report from pro-family groups leery of outcomes-based education and the intrusion of "political correctness" into the schools. On this matter we side with the pro-family groups. We believe it is possible and beneficial to establish high academic standards, to measure progress toward them, and to reward students and educators who make the greatest progress, all without giving the state education bureaucracy more power over local school boards. In Part 2 of this report, we present the key elements of such a plan.

Enforcing academic standards with a state-determined test and threatening state control of local schools has led to strong opposition to the Commission's report from pro-family groups.

Summary

In this part of its report, the Commission needed to articulate a clear vision of a quality school system and a clear understanding of why we now fall short of that vision. The Commission passes the first test, though its "vision" focuses more on changing

> ### Lessons from Kentucky
>
> Six years ago, Kentucky passed legislation quite similar to what the Commission seems to favor. The 1990 Kentucky Education Reform Act called for higher spending, spending equity, new outcomes-based standards, new curricula, and new programs to train and reward teachers. Has it worked? Here are excerpts from a *New York Times* article evaluating Kentucky's reforms.
>
> "[M]ore than five years after its adoption, there is little definitive evidence that it is working, and the reception inside the state is far more mixed than the raves Kentucky gets from outside."
>
> "From the 1989-90 academic year to the 1993-4 year, per pupil spending from state and local sources rose by 40 percent. . . . "
>
> "Several independent reviews have been sharply critical of the [new statewide assessment] test, which relies largely on written portfolios. One evaluation by six experts appointed by the state Office of Education Accountability found the test 'substantially flawed' and the reported gains 'substantially inflated.'"
>
> "Moreover, on national tests like the NAEP and the ACT given to high school seniors, there has been no measurable progress. When Louisville students took the Comprehensive Test of Basic Skills, a national test, last school year, their scores declined in all four reading and math categories in all three grades tested from 1990 to 1994."
>
> ---
>
> Peter Applebome, "Revamped Kentucky Schools are a Study in Pros and Cons," *The New York Times*, March 25, 1996.

By examining the literature on why some schools fail and others succeed, we have uncovered some root causes and problems that escaped the attention of the Commission. They include:

(1) **Informal norms that are anti-academic achievement** and that lead to lowering standards and inflating grades.

(2) **Barriers to parental involvement** despite evidence indicating that involving parents leads to significant increases in academic achievement.

(3) **Policies that discourage community support of schools,** particularly assignment of students to schools based on where their parents live rather than on shared values.

(4) **Reliance on bureaucracy and regulations** to attempt to accomplish what markets achieve automatically: accountability to parents for results.

(5) **A <u>de facto</u> prohibition on competition** that allows schools to take parents and students for granted because they have no "exit option."

(6) **Powerful special interest groups** that use their position as monopoly suppliers to a monopoly industry to extract workplace concessions (such as tenure, short work weeks, and generous benefits) and prevent true reform.

2. Spending levels

"The current system," reports the Commission, "does not provide the amount of funding necessary for a quality education in all schools across the state." (page 9) The Commission's solution is to have the state fund "at least 50 percent of the aggregate foundation cost" of a "quality basic education," which the Commission estimates to be $4,225 for the 1995-1996 school year. This amount "should be adjusted up or down to take into consideration regional cost differences across the state," as well as the concentration of low-income pupils. (page 10)

While the Commission itself doesn't say total funding for eduation in Illinois is inadequate, the press and Governor Edgar have apparently interpreted its recommendations this way. In fact, the claim is readily rebutted. (The argument actually made by the Commission -- that spending in some districts is inadequate -- is addressed in Chapter 4.)

Illinois versus other states

> Why not measure school *efficiency* rather than school *spending*, and thus inspire a more productive competition among the states?

For the 1994-1995 school year,[46] public school revenue per pupil in average daily attendance in Illinois was $6,805, slightly above the national average of $6,581 and enough to rank the state twentieth out of fifty. Current per-pupil expenditures were slightly less than the national average ($5,262 versus $5,894), giving Illinois a rank of 33. Preliminary data from the National Center for Education Statistics for 1995-1996 rank Illinois tenth highest with current per-pupil expenditures of $6,502.[47]

These figures understate by a sizeable margin the true level of spending on public schools in Illinois. Myron Lieberman, a distinguished education writer and consultant, has identified 25 cost factors that are not included in conventional estimates of per-pupil spending.[48] Capital outlays and interest on school debt, for example, are excluded from these estimates, even though nationwide they amounted to over $26 billion in 1991-1992.

Lieberman estimates that $2 billion in spending by the U.S. Department of Education is not counted in estimates of per-pupil costs, nor are unfunded pension liabilities or donations from foundations and corporations. (The MacArthur Foundation's *$40 million grant* to the Chicago Public Schools in 1990 is not counted.) and corporations. In other words, Illinois' public schools are spending considerably more than the $5,262 per pupil per year they report.

It is seldom noted that ranking states according to how much they spend on education is a dubious exercise. If other states spend heavily on school amenities that do nothing to improve student achievement, should Illinois match them dollar-for-dollar or risk falling in the rankings? Why not measure school *efficiency* rather than school *spending*, and thus inspire a more productive competition among the states?

The principal reason we measure spending rather than efficiency is because the source of these numbers is the country's biggest teacher union, the National Education Association (NEA). The NEA and its members stands to profit from the national scramble to stay "above average" in total spending. On the other hand, its members risk being held accountable for *results* if schools were compared according to their efficiency. Accordingly, the NEA rarely expresses interest in measuring efficiency.

Teacher pay

The average salary of public school teachers in Illinois during the 1994-1995 school year was $41,041 plus benefits, well above the national average teachers salary of $36,874 and enough to rank the state eighth highest in the nation.[49] Generous health insurance and pension benefits probably add 20 percent or more to the value of this cash income.

> The average salary of public school teachers in Illinois during the 1994-1995 school year was $41,041, enough to rank the state eighth highest in the nation.

A typical teacher in Illinois works 185 days a year (versus 250 for most other professions) and seven hours a day (versus eight). If teachers worked the same schedule as other professionals but were paid at their current hourly rate ($31.69), their annual cash income would be $63,382. Adding the value of benefits boosts the total to approximately $76,058.

Two further benefits that are difficult to measure is the value of life-time tenure, which is virtually nonexistent outside the field of education, and the common practice of giving public school teachers 20 percent salary increases in each of their last two years of employment specifically to boost their pension benefits. The teachers contract for Carol Stream, for example, *requires* that such raises be given. Such a policy can boost annual retirement benefits by tens of thousands of dollars.

How do these numbers compare to the salaries of other professionals? A 1995 survey published in *Fortune* magazine gives us some perspective. (See the table on the following page.) Even without adjusting for the fact that teachers work just three-quarters as many days each year as the average professional, teachers earn more than a wide variety of occupations that would seem to require similar or more advanced educational backgrounds.[50] That includes accountants, architects, actuaries, registered nurses, foremen, purchasing agents, and journalists.

When generous benefits and a short school year are factored in, the pay received by the average teacher in Illinois exceeds every occupation listed in the table, usually by a wide margin.

There is no doubt that some teachers are worthy of receiving the same pay as an architect or an engineer. Depending on the community, attracting and keeping skilled math and science teachers may require salaries well beyond the amounts described above. But the reader should understand, too, that the figures we are discussing are statewide *averages* encompassing beginning teachers with no more than teaching degrees, as well as experienced teachers with advanced degrees in the subjects they teach. The latter often receive salaries well above the figures we've reported.

The only conclusion we can reach is that Illinois' public school teachers are well paid indeed. Further increases, financed by higher taxes on citizens who already earn much less than the average teacher, would seem difficult to justify.

Average Salary for Various Occupations
(Including benefits. Figures for 1995.)

Illinois Teachers	
Average salary without benefits	$41,041
Salary adjusted for hours worked	63,382
Adjusted salary plus benefits	76,058
Accounting	
Accountant, small firm	36,500
Accountant, Big Six firm	38,625
Senior auditor	42,500
Senior tax accountant	55,300
Architecture	
Architect	35,000
Architect, principal/partner	50,000
Engineering	
Civil engineer	62,000
Electrical engineer	65,876
Mechanical engineer	65,160
Financial Services	
Actuary	36,914
Loan officer, mortgage	54,600
Loan officer, commercial	71,000
Health Care	
Registered nurse	39,800
Licensed physical therapist	45,400
Information Services	
Systems analyst	44,026
Database specialist	45,193
Software engineer	54,470
Hardware engineer	54,704
Manufacturing	
Foreman	40,300
Purchasing agent	52,800
Warehouse manager	53,600
Director of engineering	74,400
Media	
Newspaper reporter	24,127
TV news reporter	30,400
Magazine senior editor	41,900

Source: Justin Martin, "How Does Your Pay Really Stack Up?" *Fortune*, June 26, 1995, pp. 82-86.

Rate of spending growth

According to the Illinois State Board of Education, spending on education in Illinois increased by 83 percent in current dollars and 30 percent in constant dollars between 1981 and 1991, even though the number of students fell by over 100,000 during the same period.[51]

According to a new report from the Illinois Taxpayer Education Foundation,[52] total funding per student, after adjusting for inflation, rose from $5,028 in 1972 to $6,908 in 1994, an increase of 37 percent. Per-pupil spending has risen 34 percent since 1982. State spending, once again in inflation-adjusted dollars, increased from $2 billion in 1968 to nearly $4 billion in 1995, a 93 percent increase.

While total inflation-adjusted state spending was rising, *average daily attendance* fell from 2.09 million in 1972 to 1.73 million in 1994, a decline of 17 percent. Obviously, tax support for public education in Illinois -- measured in real dollars and on a per-pupil basis -- has grown considerably in recent years.

State, Local, and Federal Receipts of Funds for the Common Schools
School Years 1983-1984 through 1992-1993
(billions)

School Year	State	Local	Federal	Total	Percent Change
1983-84	2.13	3.18	.44	5.86	---
1984-85	2.30	3.32	.45	6.20	5.8
1985-86	2.60	3.48	.49	6.74	8.7
1986-87	2.80	3.63	.52	7.14	5.9
1987-88	2.68	3.91	.58	7.35	2.9
1988-89	2.82	4.30	.64	7.95	8.2
1989-90	3.28	4.71	.67	8.86	11.4
1990-91	3.34	5.06	.72	9.28	4.7
1991-92	3.30	5.55	.76	9.75	5.0
1992-93	3.33	6.00	.86	10.34	6.0
1993-94	3.48	6.45	.90	10.83	4.7
1994-95	3.66	6.84	1.08	11.58	6.9
1995-96	3.88	7.26	1.12	12.26	5.8

Sources: 1983 - 1992, *Comptroller's Monthly Fiscal Report*, May 1994, page 6; state figures for 1993-96, "Presentation to the Governor's Commission on Education Funding," Joan Walters, Illinois Bureau of the Budget, July 27, 1995. Federal and local figures for 1993-96 were provided by the Illinois Taxpayer Education Foundation.

Contrary to frequent charges that Illinois state government short changes education, state government spends more on education than any other function. Over one-third (35 percent) of 1996 state General Fund appropriations are expected to go toward education. The next highest category of spending is Public Aid, at 33.6 percent.[53]

Spending on Public Aid is driven by rising Medicaid spending and difficulties in the Department of Children and Family Services.[54] Schools, by contrast, are experiencing stable or only slightly rising enrollments.

Governor Edgar's proposed budget for 1997 provides $4.1 billion for elementary and secondary schools, up $220 million (5.6 percent) from last year. This is a significant rate of increase, particularly in light of evidence that the rate of spending growth nationwide is declining.[55] Higher education would receive $1.95 billion, a $112 million increase. The total, $6.05 billion, is 35.7 percent of total general revenue funds.[56]

In summary, Illinois spending on public schools is either near the national state average or, if preliminary numbers for 1995-1996 are correct, considerably above average. Our teachers are among the highest paid in the nation, and are certainly paid well compared to other professionals in the state. Total spending on the schools has been rising more rapidly than inflation or personal income, even as school enrollments have fallen. Our planned spending increases equal or exceed those planned by other states.

The state's share of spending has declined in recent years only because local spending financed by property taxes has risen much faster than either inflation or personal income growth. In short, the notion that Illinois' schools are inadequately funded is not supported by the data.

Does money matter?

The focus on *how much* is spent on schools, rather than *how well* we are spending money, is unavoidable given the political strength of teacher unions and their allies. But elected officials and others in the debate ought to at least have the courage to acknowledge the extensive research by independent scholars showing that spending more money does not result in better schools.

> "There is no strong or systematic relationship between school expenditures and student performance."
>
> -- *Eric Hanushek*
> University of Rochester

After examining 65 studies of the relationship between spending per pupil and student achievement, economist Eric Hanushek concluded that "there is no strong or systematic relationship between school expenditures and student performance."[57] More evidence comes from William Sander, professor of economics at DePaul University, who studied spending and student achievement in Illinois. He found that

> the results of empirical research strongly suggest that student achievement depends little upon how much money is spent, and significantly more upon how it is spent. . . . [T]he magnitude of the teacher effect on student achievement is relatively small. Thus, one cannot expect a substantial impact on ACT scores from paying teachers more.[58]

Research by Herbert Walberg and William Fowler on the relationship between spending and student achievement in New Jersey public schools found "if anything, higher expenditures are associated with lower achievement once [socioeconomic status and district size] are taken into account."[59]

Hanushek's work was recently challenged by Larry Hedges et al.[60] However, their analysis excludes a large fraction of available studies on the subject, making it unpersuasive to us. Other researchers have found no relation on average, while a few find apparent positive effects and others find negative effects of higher spending.[61] New analysis of international test scores and spending, reported in Appendix A, supports the view that spending is unrelated to student academic achievement.

The fact that spending is not related to student achievement has several explanations:

New funds seldom reach the classroom in the form of new books, computers, or smaller class size.

- Because the amount of money a public school receives is unrelated to how well it performs its job, educators realize that better performance will not be rewarded by more money. Consequently, there is no incentive to improve. The Commission should be commended for recognizing that this is currently the case, yet it seems to forget that point when it calls for larger subsidies for low-spending districts.

- Teaching and learning are complex and highly personal processes that depend critically on the values and motivation of the people involved. The literature on student achievement is filled with examples of success achieved with only small investments in traditional equipment or staffs.[62] If spending more money results in a less personal learning environment, or less focus on a core curriculum, then spending more will *reduce* rather than *improve* student outcomes.

- New funds seldom reach the classroom in the form of new books, computers, or smaller class size. Instead, the money is spent on higher salaries for tenured teachers; consumed by bureaucracies at the federal, state, district, and local school levels; or it is spent complying with the new mandates that often accompany state and federal aid.[63]

Any one of these explanations can cancel out the effects of higher spending for a particular student at a particular time. The lack of correlation between spending and student achievement, therefore, is less paradoxical than it might at first appear.

Because variations in funding levels have so little positive impact on what occurs in classrooms, the most influential variable becomes parents who value learning, who encourage students to study hard, and who have books and other learning materials in their homes. The home learning environment has been repeatedly shown to have the greatest impact on student achievement.[64]

Why are some parents willing to spend more?

When confronted by this lack of correlation between spending and student achievement, some skeptics raise the following objection:

If spending levels don't matter, why do wealthy parents prefer to send their children to schools with high spending levels?

There are three explanations: These (usually well-educated) parents are misled concerning the effectiveness of higher spending; or they believe their school is "different" from the rest and therefore spending more will improve student achievement; or they are using their tax dollars to buy something for their children other than a better education. We suspect the answer is "some of each."

The principal reason for the high achievement levels of students attending high-spending public schools is the superior home-learning environment created by affluent parents, not the higher spending. This is not mere conjecture. The research cited earlier, including William Sander's study of Illinois school districts, found that differences in achievement nearly disappear when socioeconomic status is statistically controlled.[65] The implication is *not* that children of low-income or disinterested parents cannot hope to reach high academic standards. Rather, it is that new funds spent by public schools so rarely go toward services that improve academic achievement that what occurs at home has more impact on a student's learning than what happens in schools.[66]

The principal reason for the high achievement levels of students attending high-spending public schools is the superior home-learning environment created by affluent parents, not the higher spending.

Parents who willingly pay high taxes to support a school are unlikely to have information that would allow them to know that their school is better than surrounding schools. Test scores, especially SAT results, are misleading and give little insight into the school's curriculum and other important matters. The research by James G. Cibulka, cited earlier, showed how a public school can enjoy high enrollment levels and a good reputation even though it is failing by academic measures.

Parents living in high-spending communities are also buying a *different* product than the one purchased by parents in lower-spending communities. Schools in affluent communities are more likely to have carpeted hallways, Olympic-sized swimming pools, highly paid athletic directors and coaches, and large manicured campuses. The amenities of a high-spending school may parallel the lifestyles that students enjoy at home, making schooling a more *pleasant* -- but not a more *efficient* -- experience.

In short, the behavior of affluent families does not "prove" that spending more money on public schools improves student achievement. These families willingly pay more for their schools for reasons other than school efficiency or even effectiveness. Consequently, we cannot reliably deduce from their behavior any useful information about how to improve the efficiency and effectiveness of the public school system.

The fallacy of a "foundation" level

Rather than call on the state to increase its spending on schools by an arbitrary amount, the Commission asks that it fund 50 percent of the cost of providing every student with a "foundation level" of support. In Appendix B, the task of finding the "foundation level" of spending is expressed as follows:

> . . . the Commission determined that a more rational means of defining the basic education funding amount should be developed. In order to address this issue, the Commission posed the following question: How much does it cost to provide public school pupils adequate levels of education services to meet and/or exceed state academic standards? (page 23)

> The "foundation level" idea is founded on an elementary mistake: confusing cost with price.

The Commission believes something it calls "performance-based methodology" is capable of revealing the cost of producing a general education by a "high-performing efficient school." It reports the results of a pilot application of this methodology to selected school districts around the state, which found a "grand average" per-pupil cost for "efficient" schools of $4,225 for the 1995-1996 school year.

Cost versus price

We believe the "foundation level" idea is seriously flawed. First, it is founded on an elementary mistake: confusing cost with price. The price of a good is set by the interaction of supply and demand, not by the simple sum of the cost of the inputs.[67] Prices may be above cost -- when consumers are eager to buy more than producers are able to supply -- or below cost -- when producers are more eager to sell their inventories than customers are to buy them.

The notion that any particular good or service has a "right" or "just" price was first exposed as nonsensical over two hundred years ago, by Adam Smith in *The Wealth of Nations*.[68] It is disappointing to see it revived and playing a key role in a report over two centuries later.

Prices are the communication link between producers and consumers in a market economy. An increase in demand causes a retailer to replenish his inventory more regularly. His supplier notes the quickening demand, and in turn seeks more of the product from his supplier. This creates numerous opportunities for competitive bidding for the limited supply. Without formal communication among various retailers and their suppliers, prices will nevertheless gradually rise, sending a signal to suppliers to produce more (or for new suppliers to enter the market) until a new balance is reached. The same process occurs, only in reverse, when demand for a product falls.

The volatility of prices enables them to capture and make available to the public the widely dispersed and otherwise hidden knowledge and values of willing buyers and sellers.[69] Prices can only be created where free and competitive markets exist, allowing potential buyers to bid for the goods and services of potential suppliers.[70]

The education of a child clearly presents a unique supply and demand situation, with much of the relevant knowledge held only in the minds of parents, students, and potential educators. In the setting of a small private school, or a small community's public school, this knowledge is turned into information about tuition levels, employment contracts, a student's instruction plan, transportation, and the like. When the state government attempts to replicate the results of this process, bureaucratic fiat substitutes for true information, and arbitrary numbers -- such as $4,225 -- substitute for true prices.

Nobel Laureate Friedrich Hayek discussed the problem of converting private knowledge into public information in a seminal essay titled "The Use of Knowledge in Society." While he was referring to the task of centrally managing an economy, his remarks apply perfectly to the Commission's pretense of putting a price on a quality education. An excerpt from Hayek's essay appears on this page.

The Knowledge Problem

"What is the problem we wish to solve when we try to construct a rational economic order? On certain familiar assumptions the answer is simple enough. *If* we possess all the relevant information, *if* we can start out from a given system of preferences, and *if* we command complete knowledge of available means, the problem which remains is purely one of logic. That is, the answer to the question of what is the best use of the available means is implicit in our assumptions. . . .

"This, however, is emphatically *not* the economic problem which society faces. And the economic calculus which we have developed to solve this logical problem, though an important step toward the solution of the economic problem of society, does not yet provide an answer to it. The reason for this is that the data from which the economic calculus starts are never for the whole society 'given' to a single mind which could work out the implications and can never be so given.

"The peculiar character of the problem of a rational economic order is determined precisely by the fact that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess.

"The economic problem of society is thus not merely a problem of how to allocate 'given' resources -- if 'given' is taken to mean given to a single mind which deliberately solves the problem set by these 'data'. It is rather a problem of how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know. Or, to put it briefly, it is a problem of the utilization of knowledge which is not given to anyone in its totality."

Friedrich Hayek, "The Use of Knowledge in Society," *Individualism and Economic Order* (Chicago, IL: University of Chicago, 1948.)

Putting a price on education

Effective schooling (as opposed to public education) is an extremely heterogeneous service, and as a result its price varies dramatically according to the needs and values of students, teachers, and parents. Catholic, Protestant, and many independent private schools in Chicago, for example, have *average* spending levels lower than the lowest-spending public school district in Illinois.[71]

The latest winner of Illinois' statewide spelling contest doesn't attend a school at all, but is being homeschooled by her parents. Research on homeschooling shows that these students routinely test above their grade levels, score well on ACT and SAT tests, and often are admitted into the country's best colleges.[72] What is the price of homeschooling a child? Books and supplies probably cost less than $1,000 a year, but how do we put a price on the time a parent spends with his or her child?

The cost of schooling such different children must vary greatly, but according to the Commission, there is one "right" price.

Some children are fast learners, are motivated to win the approval of teachers and their peers, and do not need special facilities to accommodate physical disabilities or health problems. Other students learn at a slower pace, may come to school with attitudinal problems that create situations requiring disciplinary action, or have handicaps that require wheelchair access, specially equipped restrooms, or the presence of a full-time nurse. The cost of schooling such different children must vary greatly, but according to the Commission, there is one "right" price.

These conundrums barely begin to illustrate the problems with the notion that a "right" price exists for providing a quality education. Other problems involve changing technology (which should reduce the cost of schooling in the long term), the extremely subjective nature of what constitutes a "quality" education, and the availability of appropriate facilities, instructors, and educational materials in a given place.

Problems with cost-based prices

Overruling the price system by substituting costs for prices distorts market signals, resulting in problems of oversupply and undersupply and wasted resources. A well-understood example of this is health care, where Medicare and many private health insurance plans for years paid physicians and hospitals on a "cost-plus" basis, rather than allowing patients to shop for the lowest price. Henry J. Aaron, a health expert at The Brookings Institution, described the results:

> The problem arises because even well-informed patients have little incentive to weigh the benefits and risks of diagnosis or therapy against the

full cost of care. . . . In short, strong incentives exist for the provision of much health care that in some sense costs more than it is worth. Moreover, as research expands the menu of beneficial diagnostic and therapeutic interventions, the bill for high-cost, low-benefit medicine tends to grow inexorably.[73]

> The Commission is proposing to follow the same path that led to so much inflation and waste in the health care field.

Cost-plus pricing in the health care field led to price inflation, over-investment in expensive medical equipment and facilities, and over- or under-consumption of health services depending on one's insurance coverage. The country has been able to slow the rate of increase in health care spending in recent years by restoring price competition among providers (through managed care) and by restricting patients' access to care (through HMOs and PPOs). The reform that has attracted the most attention in the past year is medical savings accounts, which would restore real price competition to the health care field by allowing individuals to self-insure for their medical expenses.[74]

It pays to consider the health care example closely because by proposing a "foundation level" of school finance, the Commission is following the same path that led to so much inflation and waste in the health care field. New costs will continuously be found and added to the "foundation level." Incentives to lower costs or find inexpensive alternatives will be lost. Price controls and rationing will eventually be sought as substitutes for local decisionmaking, just as they have been introduced into the Medicare and Medicaid systems.

One reason this progression of events is easy to predict is because education is similar to health care with respect to the role played by research. In both fields, research is continuously identifying new methods and remedies, creating opportunities for what Aaron called "high-cost, low-benefit medicine," and what we would quickly come to see as high-cost, low-benefit education. Spending would rise out of control despite the best intentions of the people involved.

Summary

The Governor and most of the Springfield press corps are simply wrong when they contend that Illinois needs to spend more on its public schools. Our spending compares well to spending by other states (although this is a dubious standard), and teachers are paid well by any reasonable measure.

Spending by both state and local governments in Illinois has been rising rapidly, with the state devoting a rising share of its total resources to education (even though other needs are arguably more pressing). The state's share of total funding for public schools is nevertheless falling as a percentage of total spending, only because local spending has risen so much faster than either inflation or personal income.

Spending more on public schools would not produce better schools. The research on this point is convincing and the reasons are easy to understand. Public schools are designed so that spending is unrelated to productivity or outputs. Consequently, spending has little effect on student achievement. Researchers have repeatedly found that changes in student motivation and family support have a much greater impact on student achievement than do changes in per-pupil spending levels. The fact that some parents choose to spend more than is necessary does not mean more money buys higher student academic achievement.

> The Governor and most of the Springfield press corps are simply wrong when they contend that Illinois needs to spend more on its public schools.

By way of reform, the Commission proposes an impossible task: Finding a "rational" spending level sufficient to buy a quality education. It cannot hope to capture the nearly infinite amount of knowledge of opportunity, time, and place that only a free market can translate into a price. Even if it could, substituting a cost estimate for a price will lead to continuing rises spending and additional waste, just as it has in the health care field. The Commission's estimate, $4,225 per year for an "average" child, is far too high for many students and many places; but it may be far too low for many other students and many other places.

Unless we reform the schools so that money is contingent on performance -- a point the Commission acknowledges but then neglects -- spending more money will simply waste limited resources and perhaps even slow down the reform process.

The state's lawmakers have a duty to taxpayers to promote efficiency. Increasing spending or equalizing spending to please teacher unions and other powerful interest groups does not promote efficiency. School finance reform *can* be an integral part of effective school reform, but not in the manner the Commission proposes.

3. The illusion of tax relief

According to the Commission, "the current education funding system is overly reliant on local property tax revenues." (page 10) This is bad because "by its very nature, the property tax produces an unequal burden on taxpayers," due to "arbitrary property value assessments," variation in property values from community to community, Cook County's property classification system, and the fact that not all communities have tax caps.

In Appendix A of its report, the Commission says "bringing all students up to a quality foundation level could be accomplished by providing an additional $1.8 billion to $1.9 billion in state funding, offset by a nearly equal amount of reduction in local property tax levies." (page 22) Governor Edgar has proposed raising an additional $2 billion by increasing personal and corporate income taxes. He would apply $1.6 billion toward property tax relief and $400 million toward increasing overall school funding.[75]

We agree that property taxes in Illinois are much too high and are often unfairly imposed on homeowners. But these facts do not combine to make a persuasive case for shifting the cost of public schools from property to income taxes. Who benefits and who loses from a tax swap? What are the pros and cons of property taxes and income taxes? And what assurance do we have that property taxes, once cut, will stay low?

Property Taxes Collected in 1992
By all local governments, and by type of property

Property Type	Collections (billions)	% of total
Residential	$ 5.4	51.5
Commercial & industrial	4.6	44.3
Farm and other	0.4	4.2
Total	$10.4	100.0%

Source: Legislative Research Unit, correspondence of July 25, 1994, citing Department of Revenue, *Illinois Property Tax Statistics 1991* (September 1993), pp. 23-24 and 82, 83. The House Republican Staff on March 18, 1996, reports school-tax-only data for 1993 assessments payable in 1994, showing residential collections of $3.4 billion (52.3% of total) and corporate collections of $2.8 billion (43.5% of total).

A windfall for business?

Businesses in Illinois pay nearly half of all property taxes collected each year, and a similar proportion of school taxes. (See table on this page.) Businesses pay a considerably smaller share of income taxes, just 16.2 percent. (See table on the next page.)

The result of raising income taxes and reducing property taxes, as the Commission recommends, would be to increase taxes on individuals and families by $852 million, while at the same time *reducing* annual taxes paid by corporations by $385 million. (See the second table on the following page.) In effect, the Governor's tax plan would amount to a net shift in tax liability of $1.2 billion from businesses to individuals.[76] It is safe to say that this is *not* what most Illinois taxpayers have in mind when they demand "property tax relief" from their representatives in Springfield.[77]

State Income Taxes Collected in 1992

Tax Type	Collections (billions)	% of total
Personal	$ 4.6*	83.8
Corporate and PPR tax	.9	16.2
Total	$ 5.5	100.0%

Source: Legislative Research Unit, correspondence of July 25, 1994.

* Includes $0.1 billion in individual income taxes paid by owners of S corporations.

PPR = personal property replacement tax.

Aside from the redistributive effect of the tax cut, these data also provide insight into how little of the promised property tax relief will actually come to homeowners. In exchange for paying $1.67 billion more in income taxes, homeowners would save less than half this amount, $824 million, in lower property tax bills.

Even these figures assume that the entire amount of promised property tax relief is actually passed along to homeowners. This has never before occurred in Illinois. And as is explained later, it is unlikely to happen this time.

A Windfall for Business?

Effect of . . .	$2 billion income tax hike (in millions)	$1.6 billion property tax cut (in millions)	net effect (in millions)
On Individuals	$1,676	(824)	$ 852
On Corporations	324	(709)	(385)
On Farm and other	-----	(67)	-----
Total	$2,000	($1,600)	-----

Source: The Heartland Institute, using data provided by the Legislative Research Unit. See endnote 27 for a description of the methodology.

Is there anything good about property taxes?

Property taxes are undoubtedly less popular than income taxes. Property taxes are paid directly out of a taxpayer's checkbook in one or two often painfully large lump sums a year. Income taxes, on the other hand, are usually deducted in smaller amounts from the salaries and wages of most taxpayers, sparing them the psychological pain of having to write a check to the Illinois Department of Revenue.

Far from being a reason to prefer the income tax, this lower visibility is a disadvantage of the income tax. *Taxes should be visible and difficult to pay*, since otherwise taxing bodies are able to "get away with" setting an income tax at levels higher than taxpayers would tolerate if the burden were more visible. In its January 1996 report to the American people, the National Commission on Economic Growth and Tax Reform (popularly known as the "Kemp Commission") expressed the threat of "invisible" taxation as follows:

Does anyone sincerely believe that income tax rates would be as high as they are now if taxpayers had to make lump-sum payments on April 15th each year?

> Over the years, Americans have surrendered more and more of their freedom to higher taxes. The result has not been to enhance economic security or to close the gulf between rich and poor. Instead, it has led to fewer jobs, slow economic growth, diminished hope and opportunity, an erosion of trust and confidence in government, and an ebbing of the American spirit of enterprise. It is a history that echoes James Madison's warning that 'there are more instances of the abridgment of the freedom of the people by gradual and silent encroachments . . . than by violent and sudden usurpation.[78]

Originally sold to the American people as a "tax on the rich," the income tax has spread to become a burden on every household. And the weight of the burden has grown as well, from 1 to 7 percent in 1913 to as high as 94 percent during the 1940s and 1950s and 40 percent today. No one who understands the fundamental rationale of income taxation can claim to be surprised that the tax inexorably spreads and grows more burdensome. Long ago, in 1909, *The New York Times* predicted: "When men get in the habit of helping themselves to the property of others, they cannot easily be cured of it."[79]

While appeals of property tax assessments are common, no similar mechanism is regularly at work to keep income tax collectors accountable to taxpayers. Does anyone sincerely believe that income tax rates would be as high as they are now if taxpayers had to make lump-sum payments on April 15th each year?

Another advantage that property taxes have over income taxes is in their effect on economic growth. Empirical research shows that property taxes have relatively little effect on job creation and income growth rates, whereas income taxes have significantly negative effects on both.[80] Reasons for this difference include the following:

> Empirical research shows that property taxes have relatively little effect on job creation and income growth rates, whereas income taxes have negative effects on both.

- Property is more difficult to move than income, and the supply of a major form of property -- land -- cannot be reduced in response to taxes. Options for changing conduct in order to avoid taxation are therefore more limited than in the case of income-related taxes.

- When behavior *is* influenced by property taxes, the result is not likely to be a reduction in effort or productivity, as is the case with higher income taxes.[81] Taxing unimproved land, for example, can create incentives to invest and put idle resources to use.[82]

- While *development* of property can be influenced by taxes, taxes as well as the value of improvements are quickly capitalized (that is, subtracted or added to the value of the land itself). Consequently, *current* tax rates have little effect on development or investment decisions, although *changes* in tax rates will create winners and losers.

- Because they are locally raised and locally spent, property taxes behave like the *price* paid for public services provided by local units of government. This linkage creates negotiating opportunities between businesses and local units of government, allows local communities to develop specialized services and infrastructure, and holds local governments accountable to taxpayers for the efficiency and quality of the services they provide.

A final advantage of property taxes is that some part of them can be "exported," or shifted onto taxpayers outside of Illinois. This occurs when out-of-state residents purchase homes or recreation properties in Illinois, and also by virtue of the fact that property taxes are deductible on federal income taxes. Lowering property taxes could produce a windfall for out-of-state landowners and reduce the amount of federal tax dollars returned to the state's residents each year.

The illusion of tax fairness

It is an article of faith among many advocates of higher taxes that an income tax is somehow more "fair" than other taxes. Because an income tax (even a flat-rate income tax) collects more money from a taxpayer as the taxpayer's income rises, it is "progressive." Taxes that collect from low-income people the same amount or more than is collected from higher-income people are referred to as "regressive."

In fact, the relative "fairness" of income taxes vis-a-vis other taxes is greatly exaggerated. All forms of taxation have advantages and disadvantages and affect different populations in different ways. While the income tax conforms to some of our notions of justice and fairness, it is quite at odds with other ideals and objectives. This unfairness is demonstrated in several ways.

All forms of taxation have advantages and disadvantages and affect different populations in different ways.

First, an income tax weighs disproportionately on persons whose wealth consists almost entirely of earned salary or wages -- often younger people who have acquired few assets. Individuals who, due to past earnings or inheritance, derive considerable comfort from tax-sheltered investments or assets such as homes, automobiles, and other possessions get a "free ride" from the income tax. Those who are still trying to work their way up the economic ladder will find their climb made more difficult by income taxes. As economists Walter Blum and Harry Kalven write,

> The income tax can do nothing to mitigate existing inequalities in wealth, and, moreover, it retards the accumulation of new fortunes. The progressive income tax alone, no matter how steep the progression, tends to preserve and magnify the advantages of inherited wealth. [83]

Is an older couple who owns a large and expensive home, vacation property out of state, and several automobiles, but reports little earned income, "poorer" than a young couple living with borrowed furniture in a small apartment, struggling to get by on two or three minimum-wage jobs? Surely not. But an income tax weighs most heavily on the young couple. It hinders the young couple's efforts to acquire the assets of the other, obviously wealthier, couple. Is this fair or just?

The discriminatory effects of income taxes on the younger generation is part of a larger issue of intergenerational transfers. The younger generation is being heavily taxed to finance the Social Security and other retirement programs of today's elderly, yet many experts believe those programs will be bankrupt long before members of "Generation X" qualify for benefits.[84] Increasing Illinois' income tax and lowering property taxes would exacerbate an already unjust distribution of tax burden, and perhaps drive younger workers from the state.

Second, relying on a state income tax also means that the amount one pays has little or no connection to the cost of the public services one uses.[85] For example, if a community makes a large investment in a park, swimming pool, or local school, shouldn't the residents who benefit from the facilities be asked to pay for them? And conversely, shouldn't those who do not benefit from such investments be exempted from having to pay for them? A state income tax ignores this aspect of tax fairness: It pretends that every taxpayer benefits equally from public services, or that such services are costlessly produced. Obviously, neither assumption is true. A community-imposed property tax, on the other hand, can be raised or lowered to pay for such local investments and services.

A state income tax pretends that every taxpayer benefits equally from public services, or that such services are costlessly produced. Obviously, neither assumption is true.

Third, advocates of income taxes overlook the fact that such taxes tend to inflate the salaries of affluent professionals, who then pass on much of the burden to their lower-income customers through higher prices. University of Michigan economist Joel B. Slemrod writes:

> To some extent many taxes are "shifted" to other members of society. For example, because highly progressive taxes discourage people from entering high-paying professions, salaries in these professions will be higher than otherwise. Therefore, the taxes paid by the upper-income taxpayers who do enter these professions overstate the true burden of taxation on them. Also burdened by these high taxes are the people who pay higher prices for the goods and services provided by the people with higher salaries.[86]

Finally, when proponents of income taxation assume that "ability to pay" is the most important attribute of a "good" tax, they typically overlook the flip-side of this cliché: Those with the greatest ability to pay are also society's most productive members. By relying on income taxes, we tax the most those who are doing the most good. Since we invariably get less of what we tax and more of what we subsidize, it follows that a tax on society's most productive members means we will produce fewer productive members, and more members who will live at the expense of others. Is this wise?

Beating up on income taxes does not mean property taxes are fair. And in some ways they surely are not. But the choice being offered is not between one "fair" tax and one "unfair" tax. It is between the lesser of two evils, and your choice will depend on whether or not your ox is being gored. Who can blame frustrated taxpayers for demanding genuine tax relief instead of this rigged shell game?

How much property tax relief?

Illinois taxpayers should be forgiven for doubting the politicians' promises of property tax relief in exchange for increases in state income tax rates. The record of *any* state tax increase, income tax or otherwise, producing property tax relief in Illinois has been dismally poor. And there are plenty of reasons (in addition to having a good memory) to doubt whether this latest promise will be kept.

The choice being offered is not between one "fair" tax and one "unfair" tax. It is between the lesser of two evils, and your choice will depend on whether or not your ox is being gored.

The 1973 Resource Equalizer State Aid to Education formula increased state aid to public schools and mandated a rollback of property tax rates in certain high-tax districts. At the request of those districts, the tax relief part of the law was repealed before any tax rates were cut.[87]

When the "temporary" 1989 income tax increase was made permanent in two steps, the increases were supported by some taxpayer watchdogs in the expectation of property tax relief. However, in the intervening years few Illinois taxpayers have seen reductions in, or even a reduction in the *rate of increase* of, their local property taxes. Their failure to keep past promises is, in fact, the reason lawmakers are back this year with a new promise of property tax relief.

Illinois' neighbor to the north, Wisconsin, poses a cautionary lesson to lawmakers here. Wisconsin returns a higher percentage of state tax dollars to local governments for property tax relief than does any other state. Yet Wisconsin's local property taxes still rank *sixth-highest* in the nation. Even more disturbing, Wisconsin's *overall* tax burden is also sixth-highest in the nation, suggesting that this tax shifting has resulted in an overall *increase* in the tax burden.[88]

Increasing the state's share of funding will fail to produce an offsetting decrease in local taxes because *local officials are politically motivated to spend any funds that are available to them.* Local officials treat money from other levels of government as "free" money, to be allocated to projects that would not be undertaken if locally raised funds had to be used. Taxpayers are less concerned about the wasteful or unnecessary use of funds that "come from the state," since they believe (correctly) that they have contributed only a small amount toward the grant, and if their community didn't spend it, some other community probably would.[89]

The Commission offers a constitutional amendment to "provide the needed protection to taxpayers and schools that these reforms will be sustained over the long term." (page 7) But as it is worded, the Commission's amendment only adds to the uncertainty that property tax relief would eventually come. The amendment says "no more than half of such funding for the foundation level in the aggregate shall be provided from taxes levied upon real property," and calls on the state to "substantially reduce in the aggregate the taxes levied by school districts on real property." How a court would eventually define "substantially" is anyone's guess, and nothing is said about limiting the levies of local government units other than school districts.

Are state taxes too low?

Tax-shift advocates contend that it makes sense to trade lower property taxes for higher income taxes because state taxes in Illinois are low relative to other states. They argue that Illinois can raise its income taxes and broaden the base of its sales tax without becoming uncompetitive with other states.[90]

> Population and personal income are not the only, or even the most important, factors to take into account when calculating a state's tax burden.

In 1994, Illinois ranked 33rd in per-capita state tax collections, 33rd in per household state tax collections, and 45th in state tax collections per $1,000 of personal income.[91] Some of what the state doesn't collect, local governments do: Illinois ranks 17th in the nation in total state and local revenues per capita, and 38th in state and local revenues per $1,000 of personal income.[92] These figures, often cited by advocates of higher taxes, provide only the barest outline of Illinois' true tax climate.

Population and personal income are not the only, or even the most important, factors to take into account when calculating a state's tax burden. Two other considerations that bear critically on business climate are differences in tax bases and taxes that are most likely to influence business location decisions.

Differences in tax bases

Important factors that affect a state's *tax base* include the presence or absence of mineral wealth, property values, and tourism (which presents an opportunity to export taxes to residents in other states). The only measure of tax burden that takes differences in tax bases into account is the tax effort index produced by the Advisory Commission on Intergovernmental Relations (ACIR).[93] The ACIR was created by an act of Congress in 1959 to monitor the operation of the American federal system and to recommend improvements. It is an independent, bipartisan commission overseen by elected officials and private citizens appointed by the President, the President of the Senate, and the Speaker of the House of Representatives.

The ACIR calculates tax effort as the ratio of a state's actual tax revenues to its estimated capacity to raise tax revenues. Tax capacity, in turn, is calculated by determining how much revenue would be raised if the state had a statistically average tax code. The tax effort index is the difference between a state's actual per-capita tax collections and its per-capita tax capacity, expressed as a percent of the national average. A tax effort index of 107, for example, would be 7 percent greater than the national average; an index of 94 would be 6 percent less.

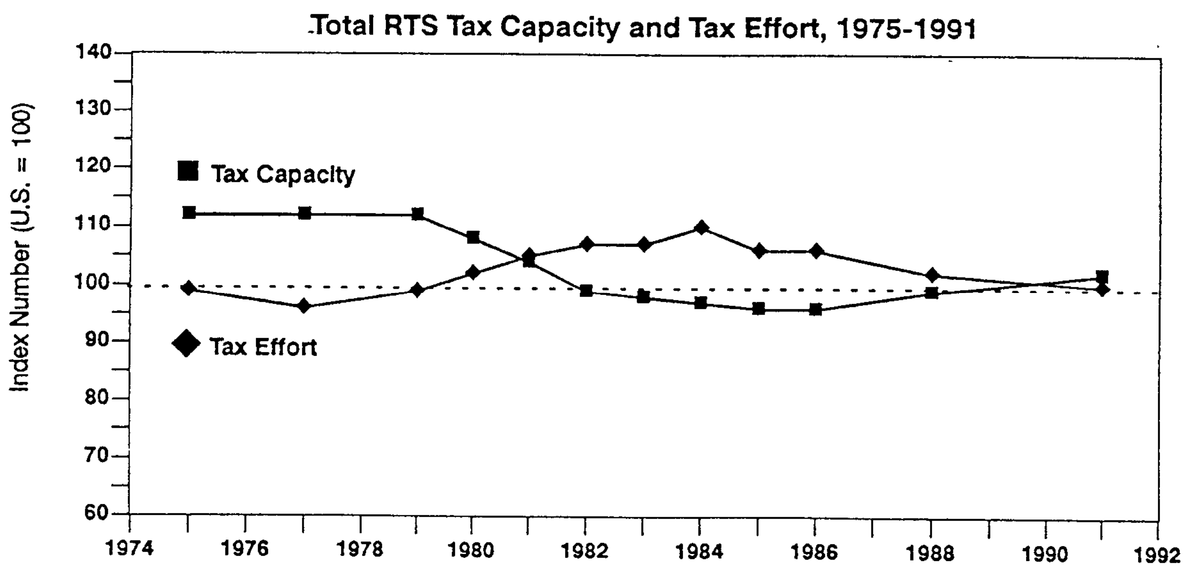
According to ACIR data, Illinois comes up short in two of the three tax bases previously mentioned. The state's capacity to raise revenue by taxing minerals is $6.56 per capita, versus the national average of $21.29. Per-capita property value in the state stands at 96 percent of the national average. The state's per-capita retail sales are essentially equal to the national average ($511 versus $509).

> Comparing Illinois' tax effort to the national median average shows us to be solidly in the high-tax category.

As the illustration below shows, Illinois' tax effort rose from less than the national average in 1977 to 10 percent above average in 1984, and then fell to a level equal to the national average by 1991 (the latest year for which figures are available). *These figures suggest that Illinois was a high-tax state during the 1980s and has only recently has become an average-tax state. It hasn't been a low-tax state since 1977.*

Illinois

1991 RTS Tax Capacity = 102 **1991 RTS Tax Effort = 100**



Source: U.S. Advisory Commission on Intergovernmental Relations

Comparing Illinois' tax effort to the national *median* average shows us to be solidly in the high-tax category. In 1991, only twelve states had a tax effort index higher than Illinois', three were tied with us, and 34 states had lower tax effort indexes. Even this somewhat understates our relative tax burden, since three of the twelve states with higher taxes than Illinois -- Alaska, Arizona, and Maine -- are states we rarely compete against for business. In other words, only nine states against which Illinois competes for jobs have higher tax burdens than Illinois. All the others have lower tax burdens.

> Only nine states against which Illinois competes for jobs have higher tax burdens than Illinois. All the others have lower tax burdens.

Taxes that bear directly on businesses

A second business climate factor typically ignored by advocates of higher state taxes is how Illinois compares with other states with regard to taxes that bear directly on businesses. If these taxes are high relative to other states, then other taxes may need to be kept low in order to offset their negative effects on business expansion and location decisions. The two most important taxes in this regard are corporate income taxes and unemployment insurance taxes.

Illinois' corporate income tax is 4.8 percent, but Illinois corporations pay an additional 2.5 percent "corporate personal property replacement tax" adopted in 1979. The total tax rate of 7.3 percent is high by national standards, although the fact that many states impose variable tax rates makes a direct comparison difficult.[94] Illinois' combined corporate tax rate is higher than the *lowest* rate charged by 35 other states, and higher than the *highest* rate imposed by 25 other states.

Increasing the corporate income tax to 8.9 percent, as proposed by Governor Edgar, would make Illinois' corporate taxes higher than the *lowest* rate charged by 40 other states, and higher than the *highest* rate charged by 37 other states. In other words, Illinois' corporate tax rate is already higher than taxes in up to 35 states. The Governor's proposal would make Illinois' corporate taxes higher than corporate taxes in up to 40 other states.

Another tax that is of particular interest to businesses is the unemployment insurance (UI) tax. High UI taxes increase unemployment by raising an employer's cost per employee. The generous benefits that high UI taxes finance also increase unemployment by discouraging layed-off workers from seeking immediate re-employment. Employers avoid or postpone hiring new workers if they know they will be charged for generous benefits in the event of layoffs. Younger workers, in particular, are hurt by high UI taxes because they pose a greater risk of being terminated than do older, more experienced workers.

Once again, a direct comparison of rates among states is difficult to obtain, but available data indicate that Illinois' tax rate is high compared to other states.[95] From

October 1993 to October 1994, Illinois employers paid $1.5 billion in UI taxes, more than all but four other states (Massachusetts, California, Pennsylvania, and New York). While this is suggestive, it fails to account for the relatively large size and high wages of Illinois' workforce.

A better measure is to compare UI taxes as a percentage of total state tax collections. UI taxes paid in Illinois amount to 10 percent of total state tax revenue, a higher share than in all but three other states (Massachusetts, Pennsylvania, and Rhode Island). (Illinois tied with Connecticut and Michigan.)

> Unemployment insurance taxes in Illinois amount to 10 percent of total state taxes paid in Illinois, a higher share than in all but three other states.

A third and final way to measure Illinois' relative UI tax burden is to examine the balance in Illinois' UI trust fund. The bankruptcy of Illinois' UI trust fund in the mid-1980s demonstrated the importance of maintaining sufficient reserves to weather recessions without having to increase UI taxes. A consensus has emerged that a balance of $700 million to $750 million is sufficient. How does Illinois' UI trust fund balance compare to that benchmark today?

As of September 30, 1995, Illinois had more than $1.6 billion in its UI trust fund, more than $900 million above the consensus reserve amount. This surplus approximately equals total revenues from corporate income taxes in 1995! Compared with other states, Illinois' UI trust fund balance as of October 1994 was ninth highest in the nation.

This balance has important implications for the state's business climate because it reflects the difference between UI tax receipts and outlays for worker benefits, and therefore measures the dollars being withdrawn from the state's economy and not returned in the form of benefits. In short, businesses in Illinois carry a much heavier unemployment insurance tax burden than do businesses in other states.

The bottom line: Total tax burden is too high

The Commission's criticism of property taxes and endorsement of income taxes is at odds with a large literature on taxes generally and Illinois' tax burden in particular. But it is wrong to focus the public debate on which tax is "better" or "worse" than the other, since *all* taxes are unfair to one group or another. The focus should be on *reducing total tax burden* instead of merely shifting it from one group to another.

It makes sense to focus on total tax burden because it is widely perceived as being too high. The Roper Center for Public Opinion Research released in February 1996 the results of a national poll on tax fairness.[96] The survey question was:

What's the highest percentage you think would be fair for a family making $200,000 a year to pay when you add all their taxes together?

1995 Tax Burden on the Typical American Family

Median Family Income		**$52,039**
Federal income tax	4,926	
Payroll Taxes		
Employee Share	3,822	
Employer Share	3,822	
Other Federal Taxes	2,244	
Total Federal Taxes		14,814
Total State/Local Taxes		6,506
Total Taxes		21,320
After Tax Income		**$34,541**
Taxes as a Percent of Income		38.2%

Source: Joint Economic Committee, *Economic Policy Update*, March 1996, citing Tax Foundation and U.S. Bureau of Census data.

Large majorities of respondents said the maximum total tax burden on this wealthy family that would be fair would be **25 percent**. When Roper broke down the numbers to see if the answer differed based on the income, race, gender, education, or political ideology of the respondents, it found that these factors had virtually no influence on the answer.

In other words, women, African-Americans, liberals, and people with college degrees were just as likely as men, whites, conservatives, and people without college educations to say 25 percent was the maximum "fair" tax rate on a relatively affluent family.

The actual tax burden this family faces today is not 25 percent, but 38.2 percent. (See the table on this page.) The combined tax burden in the U.S. today is *52 percent higher* than what the vast majority of Americans believe is fair.

Increasing state taxes in Illinois will increase the overall tax burden on Illinois taxpayers, a burden that a large majority of Illinoisans believe is already excessive. A decision to raise taxes moves us further from what most voters believe is tax fairness. This is true regardless of whether current state tax rates are high (as we have demonstrated) or low (as critics believe) relative to those of other states. Illinois lawmakers must keep in mind the *total tax burden* that Illinois taxpayers bear when deciding state tax policy.

Consequences of higher taxes

If respect for the wishes of Illinois voters and taxpayers is not a sufficient reason for lowering taxes, perhaps economic growth and job creation will be. In a 1990 study, Robert Genetski and John Skorburg tested the relationship between taxes and economic growth using tax effort indices for all fifty states and the District of Columbia from 1975 to 1986, and personal income data for each year from 1975 to 1987.[97] They found nearly all the states that raised their taxes relative to the national average experienced slower than average growth, while nearly every state that lowered its relative tax burden experienced above-average economic growth.[98]

Using standard regression analysis, Genetski and Skorburg estimated that for every one percentage point rise in tax effort relative to the rest of the nation, a state can expect its annual rate of growth in per-capita income to drop .6 percentage points below the national average rate.[99]

It can take three or four years for the full effect of a tax increase to be felt. But once the full effect has taken place, the loss is *annual* and *cumulative*. In other words, whatever income is lost in the first year means a smaller economic base for the second year and all subsequent years.

Enactment of the tax increase would reduce the growth of personal income in Illinois by $3.5 billion a year.

A net increase of $400 million in Illinois taxes, all other factors held constant, would increase Illinois' tax burden by approximately 2 percent relative to other states. Following the Genetski-Skorburg model, this would reduce Illinois' annual economic growth rate by 1.2 percentage points (2 x -.6). In the absence of the tax increase, personal income is projected to grow by approximately 4.8 percent in 1995-1996, or by $14 billion.

If enactment of the tax increase reduces this rate of growth to 3.6 percent (4.8 - 1.2), then Illinoisans would lose $3.5 billion in income, 25 percent of the growth in income that would otherwise have occurred. In other words, enactment of the tax increase would reduce the growth of personal income in Illinois by $3.5 billion a year.

The lost income due to increasing taxes can also be translated into lost jobs. Dividing the number of jobs in Illinois by total personal income reveals that each job corresponds to approximately $48,000 in personal income.[100] The $3.5 billion in lost income divided by $48,000 per job equals 73,000. This, then, is the number of jobs that would be destroyed each year by enactment of the Governor's plan.

The Michigan example

Wisconsin's experience with property tax relief made us pause before accepting the Commission's vague promises of property tax relief. Does Michigan's experience support the Commission's position?

In March 1994, Michigan voters approved Proposal A, a referendum that shifted responsibility for funding schools from local governments to state government.[101] Prior to the change, local governments provided about 60 percent of funds, state government 34 percent, and the federal government 5 percent, a division similar to Illinois' current system. After the change, the state will fund over 88 percent of education costs, and local government, only 6 percent.

> Spending by state government in Michigan is strictly limited by the Headlee Amendment, whereas local government spending is not.

Proposal A was initially advanced by a liberal Democrat, but it was approved by Governor John Engler and many conservative Republicans in Michigan for a single reason: Spending by state government in Michigan is strictly limited by a constitutional provision called the Headlee Amendment, whereas local governments are not. By placing in state hands responsibility for the lion's share of school spending, Michigan conservatives thought they would make control of education spending easier.

Michigan's Proposal A, like Governor Edgar's proposal for Illinois, was not revenue neutral, and has earned Michigan's Governor the enmity of some taxpayer groups.[102] A $130 million tax rebate recently triggered by the Headlee Amendment is the minimum amount allowed under the state's constitution and a small fraction of the $1 billion surplus the state now maintains.[103]

Most importantly, Illinois does not have a "Headlee Amendment" limiting state tax collections to a certain percentage of state income. Past efforts to put such a limit in place have been opposed by both the state's Republican and Democratic leadership. Until such a limit is in place, Illinois would be ill-advised to follow Michigan's lead. And even if such an amendment were passed, it remains to be seen whether the possible benefit of spending limitation outweighs the several disadvantages that come from centralizing funding in the hands of state government.

Summary

> The case has not been made for raising state taxes in exchange for promises of better schools and property tax relief.

We agree with the Commission that property taxes in Illinois are too high and are often unfair. And we commend the Commission for putting forth the bold goal of reducing property taxes used to fund education by 25 percent, or $1.6 billion. But we question the wisdom of paying for that tax relief by increasing another, even more troublesome, tax.

The tax swap proposed by Governor Edgar and prompted by the Commission's report would shift $1.2 billion in taxes from business to individuals. The final distribution of taxes would be skewed even more if the promised property tax relief fails to materialize.

The income tax is just as unfair as the property tax, the only difference being the age and wealth of its victims. Property taxes have a less negative effect on economic growth and job creation than do income taxes. Property taxes also reflect the value of local services delivered, and they create an opportunity for communities to develop services and infrastructures that cater to people with different interests and needs.

Contrary to the claims of some, Illinois is not a low-tax state, nor can state taxes be increased without damaging the state's competitive standing among other states. The best measure of tax burden available shows Illinois to be a high tax state, with only nine competing states having higher tax effort indexes. Taxes that bear directly on business location and hiring decisions -- corporate income taxes and unemployment insurance taxes -- are higher in Illinois than in most other states.

A $400 million-a-year tax increase would reduce personal income in Illinois by approximately $3.5 billion and prevent the creation of 73,000 jobs a year. The loss of income and jobs would be even larger if, as suspected, the amount of property tax relief promised doesn't materialize. This is a steep price to pay for the vague promise of better schools . . . a promise that has been broken innumerable times in the past.

Rather than choose among fundamentally unfair taxes, we believe the Commission should have investigated ways to increase the efficiency of public education in order to make property tax relief possible. We know from experience with other services that contracting out and other kinds of privatization often save 25 percent to 50 percent of the cost of delivering a service. Efficiencies in this range if applied to education could allow property tax relief of the scale envisioned by the Commission *without* any increase in state taxes. We investigate this possibility further in Part 2 of this report.

4. Spending variation and local control

"There is wide variation in the amount of revenue per pupil available across school districts, ranging from $3,000 to more than $15,000," says the Commission. (page 12) The range "should be narrowed, primarily by bringing the low end of the revenue range up through the guaranteed performance-based foundation level."

On page two and again on page three of the report, the Commission refers to the "unfairness," "inequity," and "irrationality" of the current system, and bemoans the fact that spending "is not based on educational need." The Commission warns darkly that "if we fail to fix the problem," we can expect to see more crime, welfare dependency, and even child abuse. (page 3)

While the goal of "preserving local control" appears in the title of this "principle," the concept doesn't merit a single additional word in the Commission's report.

Although spending variation is at the center of the debate over school finance reform in Illinois, the Commission devotes only a single page to its views on this subject. It claims, but does not attempt to substantiate, that inequalities exist, that they injure students (perhaps even turning them toward crime?), and that they can be eliminated without adverse consequences.

While the goal of "preserving local control" appears in the title of this "principle," the concept doesn't merit a single additional word in the Commission's report. Let's investigate the causes of spending variations in the state, the injuries they supposedly cause, and the real consequences of reducing them.

Why spending varies

The Commission report, like reports from other groups that have advocated tax changes for the sake of income redistribution, is strangely silent on the sources of differences in wealth among communities (and the differences in tax bases they create). The reader is left with the impression that these differences are "accidents" or a "given," as if a nuclear power plant has descended from the heavens and landed in a lucky school district, or that a school district has "always" benefitted from the presence of a strip mall or a large manufacturer.

In reality, communities differ in their ability to raise funds for schools because of the deliberate decisions made by taxpayers and local elected officials. Those decisions are usually the ethical expressions of basic rights that most people would agree are basic to the American way of life. Seen in this light, forced spending equalization contradicts other values that are highly regarded and widely held.

Differences in tax effort

The variation in spending between the collar counties and other parts of the state is partly due to the fact that the collar counties tax themselves much more heavily than either Chicago or downstate communities. The Commission acknowledges that some districts "are not exerting sufficient local tax effort" (page 9), but nowhere in the report is the significance of this fact made clear.

According to data distributed by the Taxpayers Federation of Illinois, residential property tax collections as a percentage of per capita personal income ranged from less than one percent to about 1.4 percent downstate, and were 2.11 percent of personal income in Cook County in 1991. That same year, the tax rate was 3.37 in Lake County, 3.64 in McHenry County, 3.06 in Kane County, and 3.40 in DuPage County. (See map on next page.)

The higher tax effort exerted by taxpayers in the collar counties is significant in the spending variation debate because it means differences in community wealth are not the only or even the major source of spending variation. Most downstate communities could *triple* their residential property taxes (as a percentage of personal income) before reaching the average level of tax effort in the collar counties. The source of the biggest part of the spending variation "problem," in other words, is the *unwillingness*, not the inability, of Chicago and downstate communities to tax themselves.[104]

Voluntary choices

> Variations in spending among school districts are the inevitable result of the freedom to choose where to live and work.

Most residents of Barrington and Winnetka have higher incomes than the residents of Harvey, Lincoln, or Peoria. The difference in wealth is not a mere "accident," but arises because incomes are earned by creating products and services that are valuable to others. The residents of Barrington and Winnetka pay, through their property taxes, for schools that resemble their homes. Not surprisingly, their schools spend much more than do schools in some other districts.

Variations in spending among school districts are the inevitable result of the freedom to choose where to live and work. Forced equalization of spending violates that freedom by limiting the choices and tradeoffs made by the communities we may choose among. For this reason, everyone interested in individual liberty and freedom of association ought to be deeply disturbed by campaigns to reduce school spending variation.

Residential property taxes as a percentage of per capita personal income by county, 1991

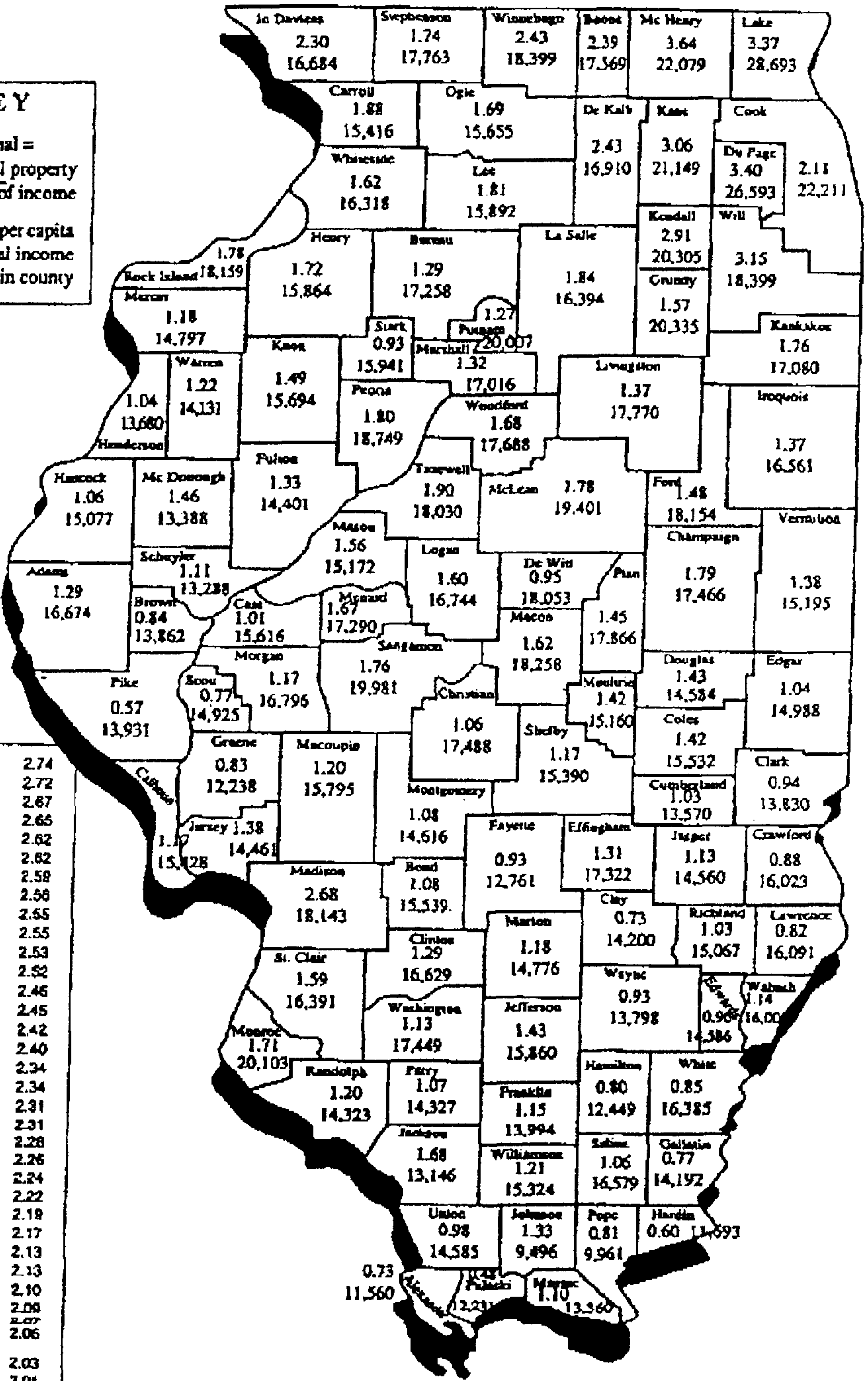
TOTAL property taxes as a % of personal income

Rank	County	
1.	DeWitt	8.32
2.	Ogle	7.12
3.	Grundy	5.82
4.	McHenry	5.39
5.	Cook	5.03
6.	Du Page	4.87
7.	Will	4.77
8.	Jasper	4.59
9.	Lake	4.45
10.	Kane	4.20
11.	DeKalb	4.19
12.	Kendall	4.14
13.	Moultrie	4.10
14.	LaSalle	4.05
15.	Douglas	4.03
15.	Ford	4.03
17.	Lee	3.93
18.	JoDaviess	3.85
19.	Warren	3.80
20.	Henderson	3.78
21.	Iroquois	3.73
22.	Carroll	3.71
23.	Logan	3.66
23.	Boone	3.66
25.	Piatt	3.65
26.	McLean	3.55
27.	Winnebago	3.54
28.	Stark	3.52
29.	Mason	3.51
30.	Livingston	3.39
31.	Edgar	3.37
32.	Schuyler	3.36
33.	Marshall	3.35
34.	Bureau	3.32
35.	Crawford	3.30
36.	Champaign	3.25
37.	McDonough	3.24
38.	Montgomery	3.21
39.	Shelby	3.15
39.	Putnam	3.15
41.	Stevenson	3.07
42.	Mercer	3.04
42.	Hancock	3.04
44.	Woodford	3.03
45.	Gallatin	3.02
46.	Coles	3.01
47.	Greene	2.99
48.	Jackson	2.97
48.	Menard	2.97
50.	Kankakee	2.95
50.	Christian	2.95
52.	Knox	2.94
53.	Rock Island	2.93
54.	Peoria	2.91
54.	Massac	2.91
56.	Tazewell	2.90
57.	Henry	2.88
58.	Sangamon	2.86
59.	Pike	2.83
60.	Madison	2.81
60.	Washington	2.81
62.	Whiteside	2.80
63.	Fulton	2.79
64.	Vermilion	2.77
65.	Macon	2.75
66.	Brown	2.74
67.	Fayette	2.72
68.	Hamilton	2.67
69.	Cass	2.65
70.	Scott	2.62
70.	Effingham	2.62
72.	Morgan	2.59
73.	Wayne	2.56
74.	Clay	2.55
74.	Cumberland	2.55
76.	St. Clair	2.53
77.	Bond	2.52
78.	Edwards	2.46
79.	Randolph	2.45
80.	Monroe	2.42
81.	White	2.40
82.	Jefferson	2.34
82.	Jersey	2.34
84.	Franklin	2.31
84.	Clark	2.31
86.	Johnson	2.28
87.	Macoupin	2.26
88.	Saline	2.24
89.	Adams	2.22
90.	Wabash	2.19
91.	Clinton	2.17
92.	Pope	2.13
92.	Calhoun	2.13
94.	Marion	2.10
95.	Perry	2.09
96.	Williamson	2.07
97.	Alexander	2.06
98.	Richland	2.03
99.	Lawrence	2.01
100.	Union	1.93
101.	Pulaski	1.28
102.	Hardin	1.24

KEY

w/ decimal = residential property tax as % of income

5-digit # = per capita personal income in county



Sources: *Illinois Property Tax Statistics, 1991*, Illinois Department of Revenue; *1993 Illinois Statistical Abstract*, Bureau of Economic and Business Research, University of Illinois at Urbana-Champaign. Map by Taxpayers' Federation of Illinois.

What would happen if we try to tax affluent families even more than we do now to support schools in other communities? Would affluent parents continue to work hard, even though their own children would not benefit from their efforts? Or would they change their conduct or hide their income? Would they closely monitor how their hard-earned money is spent? Or would they remain interested primarily in the education of their own children?

Readers can guess most of the answers. Affluent parents *would* work less hard, hide their income, and choose to live in another community or state if still more of their income were taken away and used to educate other people's children. And the degree of supervision that would be exercised over the expenditure of those funds *would* be less than what is now exercised.

Although the advocates of spending equalization often proclaim themselves to be the advocates of low-income families, we do not see how their policy recommendations would benefit such families. By slowing economic growth and job creation, forced equalization would make such families poorer. Such a policy would also limit the freedom of choice that those families now can exercise by moving to high-spending communities and sacrificing other benefits (such as shorter commuting times to work and lower rents). *Everyone* benefits when choice and diversity are allowed to flourish.

Rewards for tolerating nuisances

The residents of Byron enjoyed (at least until recently[105]) substantial revenues for their schools by taxing a nuclear power plant, but they paid for that blessing by tolerating what many other communities would consider to be an intolerable nuisance. The same applies to communities that accommodate shopping centers, solid waste sites, heavy industry, prisons, and other tax generators.

Allowing communities to welcome, and tax, nuisances that other communities shun creates a situation where communities spend different amounts on their schools.

Allowing communities to welcome, and tax, nuisances that other communities shun creates a situation where communities spend different amounts on their schools. This source of inequality, in other words, is not an accident or a mistake. *It is the predictable result of communities making choices and living with them.*

Raising state taxes and lowering property taxes would reward communities that refuse to accept the risks and inconveniences that come with economic development and growth. In the long run, this new incentive structure would slow economic growth and job creation in the state. The growth of critical industries, such as electric power generation and waste disposal, would be increasingly crippled by a "not in my back yard" (NIMBY) mentality that is now minimized because communities reap tax benefits when they tolerate such investments.

The chimera of equal educational opportunity

How, in the face of spending inequality, can we reach the goal of equal educational opportunity? We ask lawmakers, members of the Commission, and our colleagues to remember what they know to be true: That true equality of educational opportunities is an impossible and even undesirable goal.

Schools necessarily vary in uncountable and immeasurable ways, reflecting the different skills, interests, and needs of teachers, parents, and students. No two schools are equal in the sense of providing the same learning environment for a student. Much of what influences student achievement is intangible: strong instructional leadership, a safe and orderly climate, schoolwide emphasis on basic skills, high teacher expectations for student achievement, intensive parental involvement, and so on.[106]

> The uniqueness of educational encounters means "equal educational opportunity" is a chimera.

The uniqueness of educational encounters -- what we earlier called the heterogeneity of effective schooling -- means "equal educational opportunity" is a chimera. For students who learn best in a tutorial environment, being enrolled in a large suburban high school will not deliver a quality education, regardless of the many amenities the school may offer. This is only one of thousands of variations in students, teachers, facilities, and pedagogy that make the goal of "equal educational opportunity" illusory. It may speak well of the ethics and ideals of persons who propose this as a goal of public policy. But equal educational opportunity translates only very roughly into public policies, and even then with dubious effects on school quality.

The educational factors that money and elected officials can influence tend to be the least important factors in delivering a quality education. The compilation of studies cited earlier in this report found no correlation between student achievement and per-pupil spending, class size, or teacher salaries. This raises a major problem for advocates of "equal educational opportunity," since what justification can there be for controlling inputs that are not shown to be related to educational outcomes? Can a goal that speaks of educational opportunity really refer only to factors that are irrelevant to educational achievement?

The movement for national and statewide standards is an attempt to apply the goal of approximate equality of controllable inputs to things that really matter, such as curriculum and time spent studying specific subjects. The extraordinary public protests and resistance to this effort illustrate vividly the point, made by John Chubb and Terry Moe earlier, that schooling is ill-suited to political organization and management.[107] What *should* be an easy decision to make by individual teachers and parents has become a running battle between religious conservatives on one end, secular-humanist liberals on the other, and most families caught in the middle.[108]

Equity or welfare?

Instead of equal educational opportunity, perhaps the true goal is an "equitable distribution" of the burden of financing quality schools. This may be what the Commission is seeking, since the phrase "equal educational opportunity" never appears in the report.

To debate the funding issue from the point of view of taxpayers is only sensible, since we've shown that students are relatively unaffected by spending inequalities. But let's not allow the subject to be changed without calling attention to it: *The Commission is recommending how tax burdens ought to be redistributed, not how we can attain higher quality schools.*[109] Quality schools can be achieved by doing many things that don't involve reducing the variation in spending among districts. And more importantly, equalizing spending alone will not result in higher quality schools.

We already progressively tax incomes at the national and state levels to redistribute wealth.[110] In addition, the distribution of state aid is heavily biased toward communities with less taxable property (downstate) and communities with relatively large populations of at-risk students (primarily Chicago). As shown in the table on this page, the suburbs (prosperous and otherwise) pay, on average, over 82 percent of the costs of their schools from local funds. Chicago and downstate communities, by contrast, pay only half of their school costs. The collar counties account for about 21 percent of all pupils in Illinois, but receive only 14.3 percent of state aid.[111]

Sources of School Revenues
1991-1992 school year

Area of the State	State	Local	Federal
Chicago	36.4	49.9	13.7
Suburban Chicago	15.6	81.8	2.6
Downstate	42.6	51.4	6.0
Statewide Average	33.8	57.9	8.4

Source: *Comptroller's Monthly Fiscal Report*, May 1994, pages 5-6.

We reported earlier in this chapter that property taxes in downstate counties, measured as a percentage of per-capita personal income, are typically just one-third the level in the collar counties. Cook County's property taxes are about one-third lower than property taxes in the collar counties. And yet the very counties that have the lowest tax effort are receiving the largest subsidies from the state and federal governments.

The current tax and school finance system is so steeply skewed in favor of low-spending counties that it begs this question: *Are subsidies from wealthier communities perpetuating the low tax efforts of the low-spending communities?* If the answer is "yes," as we suspect it is, then Illinois has already gone well beyond the bounds of equity and entered the realm of welfare.

It seems reasonable to conclude that our past willingness to redistribute wealth has created a "welfare mentality" among many of the state's communities. Increasing the amount of wealth distributed would only serve to perpetuate and deepen this dependency, resulting in calls for still more financial help in the future. One solution that should be considered is to reduce, not increase, state aid to low-spending districts.

It seems reasonable to conclude that our past willingness to redistribute wealth has created a "welfare mentality" among many of the state's communities.

Much to its credit, the Commission recognizes the extremes already reached by the state's attempt to redistribute resources. According to the report, "[M]any school districts receive so few state education dollars that they may no longer have a stake in the state education funding system." (page 3) The Commission's solution is to provide state funding "for the vast majority of districts (approximately 97 percent) . . . through a large flat grant." (page 11) We believe this is a good idea, although we do not support the Commission's plan to finance those "large flat grant[s]" with new state tax revenues. We will return to this subject in Part 2 of our response.

Preserving local control

Even though the phrase "preserving local control" is half of the fourth "principle" set forth by the Commission, the words are never repeated in the body of the report. Neither is there any discussion of the contradiction between centralizing spending and maintaining local control. "Reducing disparities" among school districts necessarily requires that the state increase its share of school funding. What effect would this have on the autonomy of school boards and their accountability to local taxpayers?

Local control of public schools, in our opinions, is an important part of effective school reform. But by itself it is not sufficient to the task of changing the incentive structures and removing the many barriers to academic progress identified earlier in this report. The record of local school boards has hardly been stellar. Chester E. Finn, a former assistant secretary of education and proponent of local control, recently expressed his own reservations:

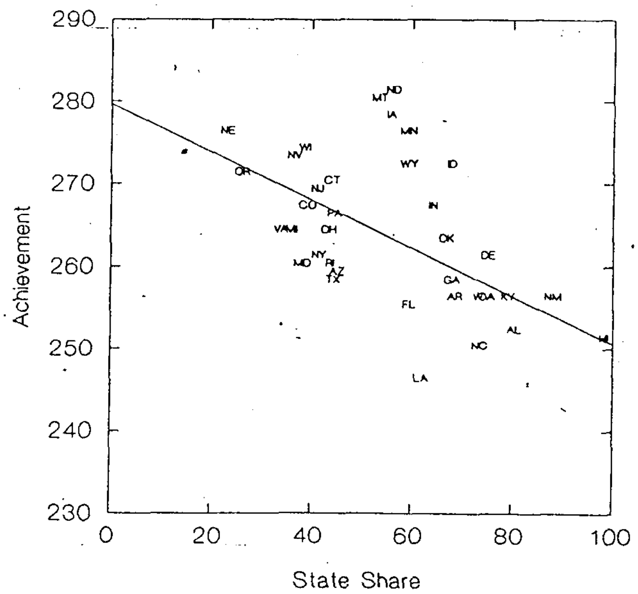
> With a few exceptions among our 16,000 school systems, the norm is smug or timid administrators who may speak eloquently to the Rotary Club but who also twitch when the teachers' union tugs their chain, who churn out misleading press releases about all the kids reading above grade level, who squander vast sums on bureaucratic overhead, and who conspire with the school board to shore up the monopoly.[112]

For all their flaws, locally funded school boards do a better job overseeing schools than do state governments. Several studies have shown that student academic achievement is closely correlated with the local share of school funding.[113] In a 1993 report, Herbert J. Walberg found a negative and statistically significant relationship between states' share of school funding and student achievement. after controlling for such differences as per-pupil expenditure and student socioeconomic status.[114] (See the graph on this page.) He writes:

> Efforts to further shift the burden of education funding from local sources to state sources should be looked upon with great skepticism. The increasing bureaucracy and declining local accountability that accompany "remote" spending on education have a demonstrably negative effect on student achievement. It is especially important to note that *who funds* education -- state or local sources -- is a much more significant determinant of student achievement than *how much* is spent (which is actually unrelated to achievement.)[115]

New research on this subject that should be of particular interest to Illinois lawmakers has been produced by John E. Berthoud, vice president of the Alexis de Tocqueville Institution in Arlington, Virginia.[116] According to Berthoud, regression analysis of test score results for forty states, including Illinois, shows a close relationship between reliance on local funding and student achievement. "The findings indicate that every 10 percent decrease in local control is associated with a 7 point drop in test scores," according to Berthoud.

Student Achievement and State Share of School Finance



Source: H-rbert J. Walberg, "Losing Local Control of Education: Cost and Quality Implications," *Heartland Policy Study* #59, November 22, 1993, page 18.

Responding specifically to the Commission's proposal to increase the state's share of financing to 50 percent, Berthoud writes:

If the share of local funding in Illinois drops from the current 64.4 percent to 50 percent, we can expect to see a resulting 15 percent drop in the test scores of Illinois students. The Alexis de Tocqueville Institution will be doing more work and re-analysis of this data, but the implication is clear -- local control has an effect. The greater the centralization, the poorer the performance of our children.[117]

> "If the share of local funding in Illinois drops from the current 64.4 percent to 50 percent, we can expect to see a 15 percent drop in the test scores of Illinois students."
>
> -- *John E. Berthoud*
> Alexis de Tocqueville Institution

If taxing authority is given to state government, but spending authority remains at the local level, the discipline that helps bring about frugal fiscal management would be lost. Community members would find it more difficult to hold school board members accountable for the quality of their schools when those board members (rightly) claim that their hands are tied by the state.

Without directly confronting the problem, the Commission nevertheless cannot help falling into its grasp. On the one hand, the Commission says local school boards should be given greater "flexibility" by block-granting 65 different categorical aids now in place. But on the other hand, the Commission laments the failure of the state to impose sanctions on those schools that "fail to meet a minimum level of performance, or otherwise fail to show improvement." And the Commission further recommends that "school funding should be more clearly tied to school performance, efficiency and improvement criteria." (page 8)

Clearly, the Commission is hoping to have it both ways. It wants local school boards to be free of mandates and bureaucratic rules. Yet it wants to make sure that state money is spent wisely and produces measurable results.

How can the Commission be unaware that it was exactly this contradiction that gave rise to the bureaucracy, mandates, and regulations that now are the source of so much opposition?

With more control flowing from Springfield, locally elected school boards would see their roles diminished to little more than unpaid bureaucrats implementing an agenda crafted in Springfield. Would civic and business leaders run for such meaningless posts? Would voters bother to turn out to select members for a board that does little more than rubber-stamp decisions made by lobbyists and bureaucrats in the state capital?

Special interest groups, more so than parents, find it easy and profitable to organize to exert pressure in Springfield.[118] Is it not obvious, then, that the days of genuine local control would be numbered should the Commission's recommendations become law?

Summary

Education spending varies from one part of Illinois to another for three principal reasons:

- The residents of some parts of Illinois are unwilling to tax themselves as heavily as do residents in other parts. Right or wrong, this has been their choice.
- Our fundamental freedoms of movement and association include the right to choose among communities that make different choices about school finance.
- Allowing communities to tolerate, and tax, local nuisances plays an important role in overcoming what would otherwise be a serious deterrent to economic growth.

Spending variation plays a small and uncertain role in the performance of Illinois' public schools. Well funded schools often perform worse than poorly funded schools, and many schools fail to perform as well as they could. We believe the Commission's focus on spending variations led it to overlook more promising reforms to the funding system that could lead to a world-class school system.

> We believe the Commission's focus on spending variations led it to overlook more promising reforms of the funding system that could lead to a quality school system.

Increasing the state's share of school finance would slow economic growth in the state by rewarding a NIMBY mentality among local governments and encouraging affluent families to work less hard, hide their income, or leave the state.

Even worse, we have evidence that shifting funding responsibility to the state would decrease student achievement by undermining local school accountability and autonomy. If the preliminary research by the Alexis de Tocqueville Institution is an accurate guide, the Commission's recommendation could cause test scores to fall by 15 percent.

Once again, we conclude that the Commission's recommendation misses the mark. In this case, it is clear to us that following the Commission's advice would reduce, rather than improve, student academic achievement.

5. Block grants

"The current system of categorical funding is inefficient," says the Commission. (page 13) One-third of total state support for education goes into some 65 different categorical programs, whose rules and restrictions force school districts to waste time and resources. The Commission recommends combining these programs into "a series of block grants" that "should allow for more efficient allocation of the state's education dollars."

We agree with the Commission that the attempt to use categorical aids to micromanage local schools has been an expensive mistake. However, we do not believe that "block granting" current state aid would move us far enough or fast enough in the direction of quality schools.

Mandates, categorical aids, and bureaucracy

Federal and state mandates and regulations place a huge burden on the nation's public schools. The National School Boards Association estimates that the six most significant federal mandates cost schools more than $15 billion a year.[119] Public schools employ 2.9 million people who do not teach, compared to approximately 2.1 million teachers.[120] That ratio suggests the largest investment in bureaucracy of any advanced country. U.S. schools also spend a higher percentage of their resources on administration than any other developed nation. (See table.)

Bureaucracy in the Public Schools
(Percentage of total national education spending devoted to nonteaching personnel)

U.S.	24.6
Canada	20.2
Australia	18.4
Finland	18.0
United Kingdom	17.7
Italy	16.7
Austria	16.2
Japan	15.0

Source: Alexis de Tocqueville Institution, 1996.

There is ample anecdotal evidence that the rise in spending on administration was caused by the growing reliance in recent years on federal and state funding.[121] Moreover, private schools, which receive very little federal or state funding, have not witnessed the same growth in administrative employment as have the public schools. The ratio of teachers to nonteachers in private schools is about 2 to 1, about the same as it was forty years ago in the public schools.[122]

The Commission doesn't ask why regulation and bureaucracy seemed to follow federal and state aid to education in the past. John Chubb and Terry Moe, the political scientists quoted at the beginning of this report, understood that regulations and bureaucracy were the unavoidable price of political oversight of education. *Increasing* state aid to education while simultaneously *reducing* regulations, as the Commission proposes, runs counter to all experience and everything we know about the workings of political institutions.

While it may be possible to reduce the regulatory strings attached to state aid in the short term, we suspect that the regulations will quickly return as elected officials try to respond to public complaints, meet special interest group demands, and keep election year promises. Decisions regarding how schools operate would still be made in an administrative rather than a market environment. In the absence of the self-correcting signals of marketplace competition, elected officials have little choice but to rely on regulations and bureaucracy to obtain some semblance of accountability.

What block grants can't do

> Providing state funding with "no strings attached" would do little to address the many institutional problems faced by public schools.

"Deregulation *per se* (perhaps even including abolishing state codes) does not result in widespread significant local policy change," writes Michael Kirst, professor of education and business administration at Stanford University, in the December 1995 issue of *The Educational Researcher*.[123] He goes on to write:

> Policies create a skeleton or shell within which classroom practice can change, but much more than policy is needed to alter instruction for most classes. . . . Moreover, policies need to be much more robust and sophisticated than most traditional approaches that stress solely either regulation or deregulation and block grants.[124]

This advice is consistent with a sound understanding of why so many schools fail to provide quality schooling. Giving schools state funding with "strings" attached may create bureaucracy and waste and undermine the authority of local school personnel, but providing the money with "no strings attached" would do little to address the many institutional problems, identified earlier, facing public schools. Specifically, block grants would not:

- Change the informal norms that are anti-academic achievement, because students and teachers would still be inclined to gradually negotiate standards downward.
- Remove the largest barrier to parental involvement, which is the absence of an "exit option" if a school is unresponsive.
- Make it more likely that more schools would develop a sense of community based on the shared values of parents and teachers.

- Foster competition among public schools, and consequently would not increase the rewards to teachers and administrators for academic success or increase the penalties for academic failure.

- Reduce the power that teacher unions and other special interest groups have over state educational policy and classroom practices.

> If the state wishes to change the way it funds schools, it should begin by refusing to accept funding under the federal "Goals 2000" program.

Block grants *would* have a slight positive effect on the incentives of teachers and administrators, who would be freed of unnecessary oversight and the burden of filling out application forms and compliance documents. But students, teachers, and administrators would still have little incentive or opportunity to work toward excellence.

Beyond block grants

Illinois needs to follow the lead of other states that are abandoning the categorical aid route and relying on market-based approaches, such as privatization and vouchers. Allan Odden and William Clune recently summarized what other states are doing as follows:

> [S]chool finance formulas -- which fund districts -- are becoming disconnected from movements within education policy that target the school site -- largely on effectiveness and productivity grounds. District funding formulas are cumbersome tools as states devolve management to sites or seek to finance schools through charter, public choice, vouchers, private contracting, and other site-oriented policy initiatives.[125]

If the state wishes to change the way it funds schools, it should begin by refusing to accept funding under the federal "Goals 2000" program. Five other states (Alabama, California, New Hampshire, Montana, and Virginia) have rejected federal funds because of the regulations and mandates associated with the program.[126] Illinois should become the sixth. The way to begin the process of reducing regulations and mandates is to stop tolerating the imposition of new ones. Rejecting Goals 2000, then, would be a strong and symbolically important start.

Summary

We agree with the Commission that the state's system of categorical funding is inefficient. It has grown more complex, bureaucratic, and expensive with the passage of time and now outweighs whatever benefits it once delivered.

Replacing categorical aids with block grants, however, is too small a step forward. Block grants fail to address all but one of the seven reasons for school failure we identified earlier in this report. Block grants would reduce some waste and eliminate some compliance costs. But they leave in place the perverse incentives, bureaucratic barriers to parental involvement, and anti-competitive practices that cripple the state's schools.

> Replacing categorical aids with block grants is too small a step forward.

Refusing to accept federal funding for "Goals 2000" would send a clear signal to individuals and organizations in the education, taxpayer, and pro-family communities that the state is serious about getting rid of mandates, regulations, and bureaucracy. To participate in "Goals 2000" while simultaneously complaining about bureaucratic "red tape" hurts the credibility of the Governor and his administration.

6. Make no small plans

The Commission blames the current system's inefficiency on "the large number of districts (more than 900)," having three types of school districts (elementary, high school, and unit), "a complicated and overly prescriptive school code," and "lack of incentives for districts to undertake innovative programs or achieve efficiencies." (page 14) The Commission recommends reducing the number of school districts and experiments "such as greater public school choice within districts, second chance programming for dropouts, charter schools, magnet schools and greater site-based management."

> The state's school code should be replaced with those requirements put forward by the Illinois State Board of Education for registration and recognition of nonpublic schools.

We agree with the Commission that the state's school code is too complicated and should be scrapped. In its place, we suggest only those requirements put forward by the Illinois State Board of Education for registration and recognition of nonpublic schools.[127] These guidelines were carefully worked out with representatives of Illinois' nonpublic school community and provide the correct balance between school-site autonomy and accountability to taxpayers.

We further agree with the Commission that districts lack incentives to innovate or to be efficient. However, we see little in the Commission's report that would create those incentives, and we are disappointed that a promising avenue of reform, vouchers, was left out of the list of recommended reforms. We specifically disagree with the recommendation to consolidate school districts.

District consolidation

The number of school districts in the U.S. fell 87 percent between 1940 and 1990, from 117,108 to 15,367.[128] The average number of students enrolled in each district increased by more than 1100 percent, from 217 to 2,637 students, as school administrators tried to find economies of scale by centralizing the delivery of educational services. Not coincidentally, this period has seen declining student achievement and rising costs, just the opposite of what consolidation was expected to deliver.

Sometimes, bigger organizations do deliver better results and greater efficiency than do smaller organizations. But this has manifestly not been the case in education. Schools are not like factories or fast-food restaurants, where routinization can improve a product's quality. The service delivered by schools is complex; it cannot be mass-produced and simply handed to a receiving student.

Casual observation in Illinois seems to confirm large school districts are most likely to be dysfunctional: Aside from East St. Louis, the Chicago Public School system is the state's largest and most troubled system. Empirical research has confirmed this theory. Bidwell and Kasarda (1975) and Turner, Camilli, Kroc, and Hoover (1986) found that larger Colorado districts tend to be less efficient than smaller districts.[129] A 1987 study by David H. Monk concluded: "Empirical evidence from New York State shows that lower levels of efficiency exist in large as compared to small districts."[130] In the same year, Walberg and Fowler's analysis of New Jersey school districts also showed an inverse relationship between size and achievement.[131] They concluded:

> These striking trends confirm other recent studies of district size and suggest that the policy of district consolidation undertaken by states in this century may have hurt rather than helped learning. . . A significant and consistent trend was found for larger New Jersey districts to achieve on average less efficiently than small districts in the state.

> Student achievement is significantly and inversely related to school district size.

A national study of school district size and student achievement for the 1989-1990 school year, conducted by Herbert Walberg and published by The Heartland Institute in 1993, found that "student achievement is significantly and inversely related to school district size."[132] The relationship was significant even when minority population and per-pupil expenditure levels were controlled.

Perhaps surprisingly, these studies showed no turning points at which the advantages of small size ended. New Jersey districts, for example, showed increasing learning advantages of smaller and smaller districts from more than 45,000 enrolled students down to fewer than fifty.

For these reasons, we suggest that lawmakers reject the Commission's advice concerning school district consolidation.

Public school choice

The Commission's embrace of public school choice within districts is a step backward to the 1980s, when many other states similar programs. Evaluations of these programs[133] have shown high levels of student and parental satisfaction and some evidence of modest positive effects on academic achievement. Many of these programs, however, have been constrained by the refusal of local school districts to allow their students to escape to other districts.

Public school choice is not a complete stranger to Illinois. It was part of Chicago's 1988 School Reform legislation, but the original language was ignored and then removed from the bill a few years later without any choice programs being started. Chicago's magnet school program is a kind of choice program that involves a significant fraction of the CPS's total enrollment, and informal arrangements among suburbs and downstate communities reportedly also constitute *de facto*, albeit small, choice programs.

How can the Commission seriously propose "pilot programs" and "experiments" when nearly two million children will be deprived of a high quality education *this year?*

The authors of the current report believe that public school choice is a very modest step in the direction of creating new incentive structures. Parents are free to choose only from a set of schools that have similar strengths and weaknesses. The kind of "managed competition" that results is not likely to produce either true innovation or real accountability to parents. Public school choice does not break the "cartel" created by public schools, but only legalizes competition among cartel members.

Dropout programs, charter schools, etc.

Like its endorsement of public school choice, the Commission's endorsement of special programs for dropouts, charter schools, magnet schools, and school-site management offer only tiny steps where giant strides are needed. Minnesota and other states have operated successful alternative programs for dropouts for years, so there is little risk in suggesting that Illinois finally try them. Charter schools and more magnet schools are token gestures, once again, of that fall short of the institutional changes needed to genuinely improve student academic achievement. And Chicago's experience with school-site management demonstrates that at best this is a slow and uncertain route to improving school quality.[134]

Illinois lawmakers should not be satisfied with the passage of a program that allows educators to create 45, one hundred, or even five hundred charter schools. Illinois has *1.8 million children* enrolled in public elementary and secondary schools. How many of them will still be in school when charter schools finally open in their communities? How can the Commission seriously propose "pilot programs" and "experiments" when nearly two million children will be deprived of a high quality education *this year?*

Summary

The Commission is right to point out the lack of incentives for efficiency and innovation in the current school system. Unfortunately, its recommended activities are weak, out of date, and would reach too few children. Specifically:

- All available evidence suggests that district consolidation would reduce, not improve, student achievement.

- Public school choice leaves in place the cartel that is so destructive of academic achievement. Students and their parents deserve to choose from among schools that genuinely differ in philosophy, organization, and focus. Teachers and administrators, too, need to be exposed to competition from schools that are effectively organized.

> The Commission lacked the courage to prescribe the kind of medicine Illinois' public schools need to become world class.

- Dropout programs and charter schools are yesterday's reforms. They change too few rules to have a major impact on student achievement, and they reach too few students to deserve the legislative attention they are receiving.

The Commission lacked the courage to prescribe the kind of medicine Illinois' public schools need to become world class. Perhaps Commission members felt their task was only to examine issues of school funding, and not reforms that would genuinely improve student achievement. But as the Commission itself notes several times, the two are deeply intertwined.

We believe the Commission failed to look outside the box of shifting around dollars and tinkering in the margins. As a result, it missed an opportunity to genuinely challenge elected officials to radically reform the state's public school system.

7. The case against a tax swap, summarized

The Commission's seventh principle is "utilize growing and predictable funding sources." Schools in Illinois have grown dependent on property taxes, says the Commission, because this revenue source has been "a reliable and growing source of revenue for schools," whereas state funding "has not been stable from year to year." (page 15) The solution, according to the Commission, is swapping a permanent increase in state taxes for a promise of future property tax relief.

The Commission recommends increasing the income tax rate, or applying the state sales tax to currently exempt purchases (such as food for home consumption and drugs), or eliminating "numerous state tax exemptions totaling $3 billion." Mindful that higher taxes might have a negative effect on the state's economic growth rate, the Commission added that "when determining a revised revenue system for education, the overall state tax system should be considered to assure and, if possible, improve the state's ability to compete in economic development."

We addressed most of the issues raised in this "principle" during our discussion of the Commission's third recommendation, to "grant substantial property tax relief." The following is a brief summary of our earlier findings.

> Reducing local government's share of education funding to 50 percent would cause a 15 percent drop in the test scores of Illinois students.

Don't abandon local funding

Local control over schools is not a panacea, and it is easy to point to instances where locally elected school boards have done a poor job. Nevertheless, the alternative of control by state government is much worse. Our reasons include the following:

- The loss of local funding and the control it makes possible is negatively correlated with student academic achievement. According to the Alexis de Tocqueville Institution, reducing local government's current 64.4 percent share of education funding to 50 percent would cause a 15 percent drop in the test scores of Illinois students.

- Local elected officials are unlikely to closely monitor the spending of "free" money from the state. In contrast, pressure from voters and taxpayers ensures that they are held accountable for how locally raised monies are spent.

- Local officials are more likely to have knowledge of a community's specific needs, opportunities, resources, and choices, and consequently are able to determine the right price to pay for high-quality schools. Substituting a "one cost fits all" foundation estimate by state government means losing much of this information, resulting in inefficiencies, unfilled needs, and waste.

- Relying on local property taxes gives communities the freedom to choose how much to invest in schools and whether to trade inconveniences for school funds. Allowing communities to determine their own levels of investment in their schools promotes economic growth and is consistent with a respect for individual liberty and freedom of association.

- Moving away from local funding and local control gives rise to a welfare mentality among those communities receiving state subsidies. Dependency on state funding reduces the willingness of local taxpayers and government officials to invest in, or to supervise, their own schools.

Don't replace property taxes with income taxes

Property taxes are unpopular, but partially replacing them with monies raised from a higher state income tax is not the answer. Our biggest concerns are the following:

- What makes property taxes so unpopular -- their high visibility -- also makes them more difficult for government to increase to levels that would threaten our most important liberties.

The tax swap proposed by the Governor would create a net shift of $1.2 billion in taxes from corporations to individual homeowners.

- The tax swap proposed by the Governor would create a net shift of $1.2 billion in taxes from corporations to individual homeowners. Illinois families would see a major tax increase, while corporations would receive significant tax relief.

- Property taxes have fewer negative effects on economic growth than income taxes because they have less effect on economic behavior.

- Property taxes can be tailored to reflect the value of locally provided goods and services, allowing communities to invest in schools or infrastructure that reflect the preferences and needs of local residents.

- Property taxes can be exported via the federal tax exemption to out-of-state taxpayers, and collected on land owned by out-of-state residents.

- Property taxes are no more and no less "fair" than income taxes. Both taxes pose heavy burdens on particular age and income groups.

- The property tax relief promised in the past never materialized, and it is unlikely to materialize this time. Local governments may simply raise non-school property taxes to fill the void, or lobby to change whatever legislation the state passes.

Don't raise state taxes

The Commission claims that Illinois' state taxes are sufficiently low that raising them would not harm the state's business climate. We disagree, and call attention to the following facts:

- Illinois is not a low-tax state. Illinois' *total tax effort* is higher than all but eight other states we compete against for jobs.

> A net increase in taxes of $500 million would have a definite impact on the state's economy, lowering personal income by $3.5 billion a year and destroying approximately 73,000 jobs every year.

- Compared to other states, our corporate income taxes and unemployment insurance tax are significantly higher than average.

- A net increase in taxes of $400 million would have a definite impact on the state's economy, lowering personal income by $3.5 billion a year and destroying approximately 73,000 jobs every year.

- Income taxes are unfair to young people and others who do not have significant investments in assets.

- Relying on income taxes forces some people to pay for public works projects they will never use, while giving other people a "free ride" at taxpayers' expense.

- Unlike Michigan, Illinois does not have a constitutional amendment limiting state spending. Because it is easier for special interest groups than for individual taxpayers to be represented in Springfield, centralizing control over spending is a recipe for uncontrolled spending increases.

Don't eliminate tax exemptions

The Commission asks lawmakers to consider eliminating some of the tax exemptions it says amount to $3 billion a year in lost revenue. The table on the following page shows the estimates the Commission appears to have relied on.

Closing tax loopholes is a politically popular thing to do, but raising taxes is not. In reality, the two are often the same thing. The major consideration is not fairness or justice, but whose ox gets gored.

Illinois Tax Exemptions and 1994 Lost Revenues (millions)

Tax	Estimated Revenue Lost
Sales tax	
Food, drugs, medical appliances	$ 753
Sales to exempt organizations	475
Exemption for trade-ins	300
Farm chemical exemption	134
Manufacturing machinery exemption	103
Individual income tax	
Retirement and Social Security deductions	$ 309
Standard deduction	307
Property tax credit	196
Corporate income tax	
Net operating loss deduction	$ 97
Motor fuel tax	
Fuels not used in motor vehicles exemption	$ 79
Total Lost Revenues	$2,753

Source: "Presentation to the Governor's Commission on Education Funding," Joan Walters, Director, Illinois Bureau of the Budget, July 27, 1995.

Starting from the bottom of the list, total state and county motor fuel taxes in Illinois are already among the highest in the country (in Chicago, they *are* the highest), and unlike most other states, the state sales tax applies to gasoline in Illinois. Eliminating this exemption seems like "piling on" to us, unfair to people who must commute to their jobs, and likely to cause the loss of some jobs to truck stops and gas stations in Wisconsin, Michigan, Indiana, and Missouri.

Eliminating the net operating loss deduction or any of the individual income tax deductions is no different than raising the state personal income and corporate income taxes. We think doing so would be unwise, for reasons previously cited. In particular, eliminating the standard deduction would be the equivalent of an outright tax increase for every Illinois taxpayer, and eliminating the property tax credit *in order to provide property tax relief* would exacerbate the transfer of tax burden from businesses to individual homeowners.

The various sales tax exemptions seem, to us, to be reasonable exercises in tailoring a tax to reflect broad social and economic development interests. Exempting manufacturing machinery and farm chemicals probably helps keep jobs in these two important areas in Illinois despite unfavorable provisions elsewhere in the state's tax code. Exempting food, drugs, medical appliances, and trade-ins is aimed at lightening the tax burden on low-income families. And the exemption of sales to tax-exempt organizations benefits nonprofit health and educational organizations that presumably render charitable services that state and local governments might otherwise have to provide.[135]

Summary

No case exists for raising state taxes in exchange for promises of property tax relief. Such a "tax swap" would have serious and negative consequences on the state's homeowners, as well as on income growth and job creation rates. We see no basis in fairness, efficiency, or economic development strategy for supporting the Commission's recommendations.

> We see no basis in fairness, efficiency, or economic development strategy for supporting the Commission's recommendations.

We further recommend that lawmakers not pursue the idea of eliminating sales or income tax exemptions. If the decision is made to raise taxes, it should be done through the front door -- by publicly advocating higher general tax rates -- and not through the back door by eliminating long-standing and broadly based tax exemptions.

8. The Commission's constitutional amendment

The Commission recommends amending Article X Section 1 of the Illinois Constitution by deleting the phrase "the state has the primary responsibility for financing the system of public education" and adding a new five-part section. Among other things, the change would require the General Assembly to establish a per-pupil foundation level of financial support, pay "at least half of such funding necessary for the foundation level," and "substantially reduce in the aggregate the taxes levied by school districts upon real property." The text of the proposed amendment appears on the following page.

We commend the Commission for its courage in backing a constitutional amendment. We especially like the rationale given early in the report that a constitutional amendment is necessary "to provide the needed protection to taxpayers and schools that these reforms will be sustained over the long term." (page 7) In truth, there have been too many tax promises broken in recent years for taxpayers to accept any significant reform to school funding without the protection of new provisions in the state constitution.

Reservations about the amendment

None of the authors of this report is a lawyer, but we each have reservations about the wording of this amendment. The letters used here correspond to the letters that appear in the Commission's proposed constitutional amendment.

> Our state supreme court justices may be wise, but we doubt that they will have any more luck than we did finding a "rational" basis for the cost of education.

A.) It is impossible to mandate, by law, that schools be "efficient" and "high quality." Every educator surely realizes this, and many elected officials must as well. So why put this language in the state's constitution? We think it reflects old- fashioned top-down thinking of the kind that gave us 65 categorical aids and rivers of regulation and red tape.

A.) Does our constitution really need to tell the state legislature to create "criteria and incentives" for "educational achievement and accountability"? The state has already tried to do so through school report cards and other programs. These programs have failed to have much impact -- not because they weren't enshrined in the state constitution, but because they failed to change the organization of public schools and the incentives of the people inside them. We don't think this language is necessary or useful to the school reform effort.

Proposed Constitutional Amendment

Section 1. Goal - Free Schools

A fundamental goal of the people of the State is the educational development of all persons to the limits of their capacities.

The State shall provide for an efficient system of high quality public educational institutions and services. Education in public schools through the secondary level shall be free. There may be such other free education as the General Assembly provides by law.

~~The state has the primary responsibility for financing the system of public education.~~

(Source: Illinois Constitution)

Section 1.5. Funding and Accountability *

a) The General Assembly shall provide by law the criteria and incentives for an efficient, high quality system of elementary and secondary public education, including funding, educational achievement and accountability.

b) The General Assembly shall establish and review at least every two years the per pupil foundation level of financial support that provides and maintains an efficient, high quality system. The General Assembly shall provide by law for a combination of State and local funds to meet the requirements of the foundation level of support. In the aggregate, at least half of such funding necessary for the foundation level shall be provided by the State from State resources. No more than half of such funding for the foundation level in the aggregate shall be provided from taxes levied upon real property.

c) Concurrent with implementation of the system of funding required by this Section, the State shall substantially reduce in the aggregate the taxes levied by school districts upon real property.

d) The General Assembly shall provide by law for supplemental funding above the foundation level from State, local, and other resources and shall establish limitations, including requirements for local referenda, on the provision of supplemental funding from local taxes.

e) On or before May 30, 1997, the General Assembly shall provide by law for implementation of this Amendment.

Schedules

This Constitutional Amendment takes effect upon approval by the voters of the state.

* The underlined sections above represent recommended additions to the present Constitution.

B.) Placing the notion of a "per pupil foundation level of financial support that provides and maintains an efficient, high quality system" in the constitution is an invitation to the state's judges to arbitrarily set an amount. Teacher unions and their allies would lobby and sue to raise the foundation level; the business community and pro-taxpayer groups would lobby and sue to lower it. Our state supreme court justices may be wise, but we doubt that they would have any more luck than we did finding a "rational" basis for the cost of education.

C.) What does "substantially reduce in the aggregate the taxes levied by school districts upon real property" really mean? Is it a 10 percent reduction? A 20 percent reduction? In districts with low levies, a high "foundation" level would require an *increase* in property taxes to qualify for the 50 percent matching grant from the state. We do not believe the state should overrule the judgment of local taxpayers regarding how much support their local schools deserve.

D.) The requirement that the General Assembly "establish limitations, including requirements for local referenda, on the provision of supplemental funding from local taxes" is too vague to ensure that tough property tax limits would emerge. If the Commission wanted to convince voters that the promise of property tax relief was real, it should have put statewide property tax caps into its amendment. That it leaves this for the General Assembly to decide -- a General Assembly that already can impose statewide property tax caps anytime it wishes -- leaves us skeptical. We suppose many voters would feel the same way.

> The Commission's proposed constitutional amendment would be a lawyer's dream and an educator's nightmare.

Summary

We are skeptical that the constitutional amendment, as drafted by the Commission, would advance the state of education in Illinois. It commits the General Assembly to producing something it has no power to produce: an efficient and high quality school system. It unnecessarily calls on the General Assembly to do more of the things it has done poorly in the past: create evaluation and accountability programs. And it fails to specifically call on the General Assembly to do something it should have done long ago: impose statewide caps on property taxes.

The Commission's constitutional amendment would be a lawyer's dream and an educator's nightmare. Since there is no such thing as one true cost for a quality education, lawyers would have a field day filing suits to help judges divine the mysterious number. Educators can expect more top-down accountability and evaluation programs that would waste their time and once again fail to produce useful information.

Conclusion

The purpose of the Governor's Commission on Education Funding was to "develop and recommend an action plan for the reform of the primary and secondary education funding system in Illinois, with emphasis on the areas of equity and fairness." (page 1) While we do not believe the Commission accomplished its entire mission, we nevertheless commend it for taking some courageous positions. These include the following:

> While we do not believe the Commission accomplished its entire mission, we nevertheless commend it for taking some courageous positions.

- Stating clearly that the state's current funding system "has no link to quality or performance," (page 2, 8) a profound problem that must be changed before real reform -- the kind that reaches into the classroom -- can become possible.

- Confirming the importance of "clearly defined academic standards and a reliable student and school assessment system," (page 5) without which we cannot measure progress or hold students, teachers, and administrators accountable.

- Calling attention to the need for significant local property tax relief, and for setting a realistic goal of "an aggregate reduction of at least 25 percent or approximately $1.5 billion from the current local school operating taxes being levied." (page 6, 11)

- Publicly recognizing the problem that "many school districts receive so few state education dollars that they may no longer have a stake in the state education funding system," (page 3) and for proposing that "state funding . . . for the vast majority of districts (approximately 97 percent) should be provided through a large flat grant." (page 11)

- Calling attention to the fact that many downstate districts "are not exerting sufficient local tax effort." (page 9)

- Calling for statewide property tax caps for local education funding. (page 11)

- Pointing out that nothing less than a constitutional amendment is needed "to provide the needed protection to taxpayers and schools that these reforms will be sustained over the long term." (page 7)

In Part Two of our response to the Commission's report, we build on these ideas (plus a few of our own) to show how an alternative reform plan could put Illinois on the path toward world-class schools. While we admire some of what the Commission has to say, there are other parts that we take strong exception to. They include the following:

While we admire some of what the Commission has to say, there are other parts that we take strong exception to.

- The Commission calls for minimizing variations in spending among school districts, but presents no evidence that such variations affect student academic achievement. The Commission never asks *why* spending varies, and consequently never discusses the sacrifices made by some communities in order to earn the money spent on schools, or the basic freedoms of choice that forced spending equalization would limit.

- The Commission claims to be in favor of local control, but then fails entirely to address how centralizing funding undermines local control and accountability. Who truly believes that vesting control over education in the hands of bureaucrats in Springfield will produce more efficiency, innovation, or accountability?

- The Commission proposes swapping a state tax hike for property tax relief. It does not mention that such a swap would amount to a billion-dollar-a-year shift in tax burden from businesses to individuals and families. It does not mention research showing property taxes to be less destructive than income taxes of jobs and personal income growth. It does not discuss the fairness issues of relying more heavily on taxes that discriminate against the young while exempting those with inherited assets.

- The Commission says state taxes can be raised without compromising Illinois' business climate. It ignores data from the Advisory Commission on Intergovernmental Relations showing Illinois' true tax burden to be 13th highest in the country, and higher than all but eight states against which we compete for businesses. Nor does the Commission consider that the state's corporate income taxes are already higher than the lowest rates charged by 35 other states and higher than the highest rate imposed by 25 other states. Or that our unemployment insurance tax is among the nation's highest.

- The Commission calls for establishing a "foundation" level of spending, yet the very notion of a single government-defined "right price" for anything, but especially for a high-quality education, is nonsensical.

- The Commission calls for "block granting" state aid, even though block grants cannot motivate students inside classrooms, or change the way teachers and administrators are paid, or untie the hands of local school board members, or empower parents to leave a school that is doing a poor job.

- The Commission calls for intradistrict public school choice, dropout centers, charter schools, and other minor reforms that have either been tried in other states for a decade or longer, or would reach so few students as to have virtually no effect on virtually all 1.8 million Illinois public school students.

It is our hope, expressed in the introduction to this response, that the Commission's report and our reply will be the first steps toward the bold and long-overdue reforms needed to make Illinois' schools world-class. We offer our ideas in the spirit of friendly debate, but ask the reader to share our sense of urgency.

Every day that we delay implementation of real reform is another day nearly two million children are denied a high-quality education in Illinois.

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Endnotes

1. See Don Thompson, "Tax swap proposal seemed doomed from the beginning," *Daily Herald*, March 29, 1996, p. 15; "The early demise of Edgar's plan," editorial, *Daily Herald*, March 31, 1996, p. 14.

2. "Education vs. politics: No contest," editorial, *Chicago Tribune*, March 29, 1996.

3. See "Politicians need to stand tall for state's schoolkids," by Eric Zorn, *Chicago Tribune*, March 31, 1996; "Hashing of Edgar plan is recipe for GOP ruin," Thomas Hardy, *Chicago Tribune*, March 31, 1996.

4. Sixty-two percent of respondents to a March 1996 national poll thought the education delivered to students around the country was fair, poor, or very poor. Only 13 percent thought inadequate funding was the most serious problem facing the schools. See "Americans' views on education issues," *U.S. News & World Report*, April 1, 1996, p. 54. See also Ann Bradley, "Public Backing for Schools is Called Tenuous," *Education Week*, Vol. XV, No. 7, October 18, 1995, pages 1, 13.

5. A February 1996 poll conducted by the Roper Center for Public Opinion Research found large majorities of respondents said the maximum total tax burden on a family earning $200,000 a year should be 25 percent. The actual tax burden is 38 percent. See Joint Economic Committee, *Economic Policy Update*, March 1996.

6. See Center for Government Studies, Northern Illinois University, *1990 Illinois Policy Survey*; Herbert J. Walberg and G. Alfred Hess, Jr., "Chicagoans View their Public Schools," Chicago Panel on Public School Finances, June 1985, page 7; Ann Bradley, "Public Backing for Schools is Called Tenuous," *Education Week*, Vol. XV, No. 7, October 8, 1995, pages 1, 13.

7. "Tax and Switch," *The Wall Street Journal*, March 27, 1996, p. A18.

8. The alert reader will note that not all theories of school failure fall neatly into the three categories described here. The division is not meant to be exhaustive or to suggest that interdisciplinary theories don't exist.

9. James S. Coleman, "Achievement Oriented School Design," paper prepared for the Social Organization of Schools conference held at the Center for Continuing Education at the University of Notre Dame, March 19, 1994, page 10.

10. Theodore Sizer, *Horace's Compromise: The Dilemma of the American High School* (Boston, MA: Houghton Mifflin, 1984).

11. Chester E. Finn, Jr., *We Must Take Charge* (New York: Free Press, 1991).

12. Ibid., page 106.

13. Coleman, op cit.

14. Herbert J. Walberg, "Families as Partners in Educational Productivity," *Phi Delta Kappan*, Vol. 65, No. 16 (February 1984), pp. 397-400. For recent data, see Herbert J. Walberg, "Enhancing School Productivity: The Research Basis," in Pedros Reyes, ed., *Teachers and their Workplace* (Newbury Park, CA: Sage Publications, 1990); and John E. Chubb and Terry M. Moe, *Politics, Markets, and America's Schools* (Washington, DC: The Brookings Institution, 1990), pages 147-149.

15. Joyce L. Epstein, "Paths to Partnerships," *Phi Delta Kappan*, January 1991, page 349.

16. Frank E. Nardine and Robert D. Morris, "Parent Involvement in the States," *Phi Delta Kappan*, January 1991, p. 366.

17. James S. Coleman and Thomas Hoffer, *Public and Private High Schools: The Impact of Communities* (New York, NY: Basic Books, Inc., Publishers, 1987).

18. Coleman and Hoffer, op cit., pages 57-95; See results of the National Education Longitudinal Study of 1988, First Followup Survey, summarized in Table 124 of National Center for Education Statistics, *Digest of Education Statistics 1993* (Washington, DC: U.S. Department of Education, 1993).

19. See Coleman and Hoffer, op. cit., pages 77-78; James S. Coleman, "Do Students Learn More in Private Schools than in Public Schools?" *Madison Paper #4* (Tallahassee, FL: The James Madison Institute, 1990); and Chubb and Moe, op cit., pages 259-277; Thomas Hoffer, Andrew M. Greeley, and James S. Coleman, "Catholic High School Effects on Achievement Growth," in Edward H. Haertel, Thomas James, and Henry M. Levin, editors, *Comparing Public and Private Schools*, Vol. 2 (Philadelphia, PN: The Falmer Press, 1987). Whether or not the size of the difference is so significant as to justify major restructuring of public education has been contested by several scholars, including some appearing in the previously cited book. The question should be moot in Chicago, however, where private schools clearly outperform public schools even when operating adjacent to them. See Archdiocese of Chicago, *Chicago Catholic Schools, 1987-88* and subsequent editions; Alfredo S. Lanier, "Let Us Now Praise Catholic Schools," *Chicago Magazine*, October 1982, pages 147-153. Along the same lines, see Dori Jones Yang, "Lots of love and no excuses," *Business Week*, May 8, 1995, pp. 28B, 28D.

20. See Public Policy Forum, "Public and Private School Costs: A Local Analysis 1994," (Milwaukee, WI: PPF, 1995); National Catholic Education Association, *U.S. Catholic Elementary and Secondary Schools, 1990*; Robert J. Genetski and Timothy Tully, "A Fiscal Analysis of Public and Private Education" (Chicago, IL: Robert Genetski and Assoc., 1992).

21. See Chubb and Moe, op cit., pages 53-55.

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23. Quoted in Joseph Bast, Michael Bakalis, Herbert Walberg, and Steven Baer, *We Can Rescue Our Children: The Cure for Chicago's Public School Crisis* (Chicago, IL: The Heartland Institute, 1988), page 61.

24. Chubb and Moe, op cit.

25. Ibid., pages 127-128.

26. Ibid., pages 136-137.

27. See Yale Brozen, "Is Government the Source of Monopoly?" *Cato Paper #9* (Washington, DC: Cato Institute, 1980).

28. James G. Cibulka, "School Improvement Processes: A Comparative Study of Chicago High Schools," in R.P. Niemiec and H.J. Walberg, eds., *Evaluating Chicago School Reform* (San Francisco, CA: Jossey-Bass Publishers, Fall 1993), page 77.

29. They also compete with other government agencies for public appropriations. The authors thank James Johnston, an economist and advisor to The Heartland Institute, for his advice and insights in this area.

30. See Bruce S. Cooper, "The Changing Universe of US Private Schools," in Thomas James and Henry M. Levin, editors, *Comparing Public and Private Schools*, Vol. 1 (Philadelphia, PN: The Falmer Press, 1988). For local figures, see Ed Marciniak, *Chicago's Private Elementary and Secondary Schools: Enrollment Trends* (Chicago, IL: Institute of Urban Life, 1990).

31. See Mary B.W. Tabor, "SAT Ranks for the States are Disputed," *The New York Times*, March 27, 1996; and Lawrence C. Stedman, "The Sandia Report and U.S. Achievement: An Assessment," *The Journal of Educational Research*, Vol. 87, No. 3, January/February 1994. p. 137.

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33. Peter Brimelow, "American Perestroika," *Forbes*, May 14, 1990.

34. Sam Peltzman, "The Political Economy of the Decline of American Public Education," *Journal of Law & Economics*, April 1993, pp. 331-370. More recently, Peltzman examined the impact of teacher unionization on non-college-bound students. He found that associations of teacher unionization and increased reliance on state government funding of schools with declining student achievement seem to appear first in the performance of college bound students, then spread to the noncollege bound. See Sam Peltzman, "Political Economy of Public Education: Non-College Bound Students," *Working Paper No. 108*, Center for the Study of Economy and the State, University of Chicago, February 1995.

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39. Myron Lieberman, Charlene K. Haar, and Leo Troy, op cit., page 29.

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43. See Charles Sykes, op cit., pages 227-240; John E. Nelson, "The California Teachers Association: Power Politics vs. Education Reform," *Briefings*, The Claremont Institute, February 15, 1994.

44. Herbert J. Walberg, "Enhancing School Productivity: The Research Basis," in Pedros Reyes, ed., *Teachers and their Workplace* (Newbury Park, CA: Sage Publications, 1990).

45. John H. Bishop, "The Impact of Curriculum-Based External Examinations on School Priorities and Student Learning," *Working Paper #95*, Center for Advanced Human Resource Studies at Cornell University, September 1995.

46. The following figures are from the National Education Association, *Rankings of the States, 1995*, pages 40, 50. The U.S. average includes the District of Columbia.

47. National Center for Education Statistics, March 1996, preliminary report provided by Illinois Board of Education.

48. Myron Lieberman, *Public Education: An Autopsy* (Cambridge, MA: Harvard University Press, 1993), pages 119 ff.

49. National Education Association, op. cit.

50. National studies show the average salary of college graduates who become teachers is declining relative to what other college graduates earn. But this does not mean that teachers are being underpaid. As Eric Hanushek writes, "Schools must compete with other industries for highly skilled workers. But other industries have experienced much more pronounced productivity gains than have schools, allowing these industries to bid more for the workers they want." In other words, the solution is not to increase pay for the same level of work, but to make teachers more productive so they can earn higher wages. See Eric A. Hanushek, "Making Schools Work: Spending and Student Achievement," *Heartland Policy Study*, The Heartland Institute, September 26, 1995.

51. Illinois State Board of Education, *State, Local, and Federal Financing for Illinois Public Schools*, 1991-1992, March 1992, page 10.

52. Dennis Constant, "Illinois Public School Tax Dollars Climb Despite Lower Daily Attendance," *ITEF Review*, Vol. 1 #2, Illinois Taxpayer Education Foundation, January 1996.

53. Joan Walters, Director, Illinois Bureau of the Budget, "Presentation to the Governor's Commission on Education Funding," July 27, 1995.

54. For more on the Department of Public Aid and DCFS, see Michael A. Finch, Joseph L. Bast, and Patrick T. Foys, "How to Win Illinois' Battle of the Budget," *Heartland Policy Study*, The Heartland Institute, September 30, 1994.

55. According to Allan Odden and William Clune, "education resources have been flat for the past five years and are unlikely to do much better in the near future." "Improving Educational Productivity and School Finance," *Educational Researcher*, December 1995, p. 6.

56. Joan Walters, op cit.

57. Eric A. Hanushek, "The Impact of Differential Expenditures on School Performance," *Educational Researcher*, Vol. 18, No. 4 (1989).

58. William Sander, "Spending and Student Achievement in Illinois," *Heartland Policy Study*, The Heartland Institute, October 17, 1990.

59. Herbert J. Walberg and William J. Fowler, Jr., "Expenditure and Size Efficiencies of Public School Districts," *Heartland Policy Study*, The Heartland Institute, September 27, 1988, page 14.

60. L.V. Hedges, R.D. Laine, and R. Greenwald, "Does Money Matter? A Meta-Analysis of Studies on the Effects of Differential School Inputs on Student Outcomes," *Educational Research*, Vol. 23 (1994) pages 5-14.

61. For a survey of recent research see Allan Odden and William Clune, op cit.

62. For a recent survey, see Herbert J. Walberg, "Generic Practices," in Gordon Cawelti, ed., *Handbook of Research on Improving Student Achievement* (Arlington, VA: Educational Research Service, 1995.) pages 7-19.

63. Several studies have been made of public schools in New York, Milwaukee, and California. See Bruce Cooper, Robert Sarrel, and Toby Tetenbaum, "Choice, Funding, and Pupil Achievement: How Urban School Finance Affects Students - Particularly Those At-Risk," paper presented to the American Educational Research Association, 1990; Michael Fischer, "Fiscal Accountability in Milwaukee's Public Elementary Schools," Wisconsin Policy Research Institute, September 1990; Lance Izumi, "California's Education System: Where does all the money go?" Golden State Center for Policy Studies, February 19, 1992. For a recent summary of the literature, see Allan Odden et al., "The Story of the Education Dollar," *Network News & Views*, Vol. XIV, #12 (December 1995), pages 1-8. The Chicago Panel on Public School Policy and Finance claims a larger portion of funding reaches CPS classrooms. See G. Alfred Hess, Jr., "Reorienting a School District's Funding Priorities by State Mandate," *Network News & Views*, Vol. XI, No. 5 (May 1992), pp. 70-80. But on Hess's credibility, see Diane C. Bast, "Why Did the Education Watchdogs Fail Us? *Prairie State Perspective*, Center for Rebuilding America's Schools, March 7, 1996.

64. See Walberg and Fowler, op cit; Chubb and Moe op cit.; Richard J. Murnane, "Comparisons of Private and Public Schools: The Critical Role of Regulations," in Daniel C. Levy, editor, *Private Education: Studies in Choice and Public Policy* (New York, NY: Oxford University Press, 1986).

65. Socioeconomic status is a rough proxy for the home learning environment. Not all wealthy or educated parents create supportive home environments, and many poor and less-educated parents place a high value on learning. If we could directly measure the home learning environment, its correlation with student academic achievement would undoubtedly be higher than the correlation with socioeconomic status.

66. If public schools were redesigned to become more efficient organizations, one would expect their influence on learning to become large enough so that different spending levels would indeed correlate with changes in student achievement.

67. For a textbook explanation of price theory, see Armen A. Alchian and William R. Allen, *Exchange & Production* (Belmont, CA: Wadsworth Publishing Company, 1983) pages 57ff, 89ff.

68. Adam Smith, *An Inquiry into the Nature and Causes of The Wealth of Nations*, 1776 (Chicago, IL: University of Chicago, 1976 edition), pages 62ff.

69. See Thomas Sowell, *Knowledge and Decisions* (New York, NY: Basic Books, 1980), pages 50ff; James M. Buchanan, *What Should Economists Do?* (Indianapolis, IN: Liberty Press, 1979), pages 81ff.

70. The classic formulation of this point is by Ludwig von Mises, in *Socialism* (Indianapolis, IN: Liberty Classics, 1981 (1969)) and other works. In *Socialism*, Mises wrote: "Separate accounts . . . are possible only when prices for all kinds of goods and services are established in the market and

furnish a basis of reckoning. Where there is no market there is no price system, and where there is no price system there can be no economic calculation." (p. 113)

71. See Joan Davis Ratteray, "Access to Quality: Private Schools in Chicago's Inner City," *Heartland Policy Study*, The Heartland Institute, June 27, 1986; Joan Davis Ratteray, *Directory of Independent Schools, 1988* (Washington, DC: Institute for Independent Education, 1988); and Joan Davis Ratteray, *On the Road to Success* (Washington, DC: Institute for Independent Education, 1991).

72. See Mary Elizabeth Podles, "Home Schooling Works: A Former Skeptic's Report," *Crisis*, April 1993, pages 27-32; Andromeda C. Romano, "The Little Red Schoolhouse of the '90s: Home," *The Monthly Aspectarian*, September 1990.

73. *Serious and Unstable Condition* (Washington, DC: Brookings Institution, 1991), pages 8-9. See also Joseph L. Bast, Richard C. Rue, and Stuart A. Wesbury, Jr., *Why We Spend Too Much on Health Care* (Chicago, IL: The Heartland Institute, 1993), pages 53ff.

74. See Bast, Wesbury, and Rue, op cit.

75. "A 1% increase in the state individual and corporate income tax would generate approximately $2.1 billion ($1.9 billion and $212 million respectively)." House Republican Staff Memorandum, Colleen Atterbury, March 18, 1996.

76. This calculation follows the procedure used by the Legislative Research Unit in response to a prior inquiry by Rep. Bernard Pedersen. According to Charles Minert, Senior Research Associate, in a letter dated July 25, 1994: "If income taxes were increased enough to raise an additional $1 billion, which was then rebated to property taxpayers, 83.8% of the increase ($838 million) presumably would be paid by individuals and the remaining 16.2% ($162 million) by corporations. If . . . $1 billion in property tax relief were distributed in the same ratio as amounts paid for property taxes, payers of property taxes in residential property would receive about 51.5% of the total ($515 million) and payers of property taxes on commercial and industrial property would get 44.3% ($443 million)."

77. If swapping property taxes for income taxes overwhelmingly benefits businesses, why do "public interest" groups such as the Illinois Tax Federation and the League of Women Voters support the proposal? One explanation may be what Milton Friedman calls "the reverse invisible hand." He explained in an essay titled "Why Government is the Problem" published in 1993 by the Hoover Institution:

> You remember Adam Smith's famous law of the invisible hand: People who intend only to seek their own benefit are "led by an invisible hand to serve a public interest which was no part of" their intention. I say that there is a reverse invisible hand: People who intend to serve only the public interest are led by an invisible hand to serve private interests which are no part of their intention.

78. National Commission on Economic Growth and Tax Reform, "Unleashing America's Potential," January 1996.

79. Ibid.

80. See Timothy J. Bartik, "Business Location Decisions in the United States: Estimates of the Effects of Unionization, Taxes, and other Characteristics of States," *Journal of Business and Economic Statistics* 3 (January 1985), pages 14-22; Thomas Romans and Ganti Subrahmanyam, "State and Local Taxes, Transfers and Regional Economic Growth," *Southern Economic Journal* 46 (October 1979), pages 435-444; Joseph Bast and Diane Bast, editors, *Coming Out of the Ice* (Chicago, IL: The Heartland

Institute, 1990), pages 20-32; Gerald Scully, "How State and Local Taxes Affect Economic Growth," *NCPA Policy Report*, National Center for Policy Analysis, April 1991.

81. On the negative effects of income taxes on economic growth, see Alan Reynolds, "Marginal Tax Rates," in David R. Henderson, editor, *The Fortune Encyclopedia of Economics* (New York, NY: Warner Books, 1993), pages 329-331.

82. See Mason Gaffney, "Rising Inequality and Falling Property Tax Rates," in Gene Wunderlich, editor, *Land Ownership and Taxation in American Agriculture* (San Francisco, CA: Westview Press, 1992); C. Lowell Harriss, editor, *The Property Tax and Local Finance* (New York, NY: The Academy of Political Science, 1983). Five cities in Pennsylvania have experimented with raising taxes on land values and cutting taxes on improvements. The results are described in a video titled "A Tale of Five Cities - Tax Revolt Pennsylvania-Style" available from the Center for Public Dialogue, 10615 Brunswick Avenue, Kensington, MD 20895. Regarding the Pennsylvania experience, see also "Testing Pro-Growth Property Taxes," *Economic Education Bulletin*, Vol. XXV, No. 2 (Great Barrington, MA: American Institute for Economic Research, February 1985).

83. Walter Blum and Harry Kalven, *The Uneasy Case for Progressive Taxation* (Chicago, IL: University of Chicago Press, 1953 (1966 printing)), page xviii.

84. See Mark Weinberger, "Social Security: Facing the Facts," *Social Security Privatization*, The Cato Institute, April 10, 1996.

85. This concern may not apply to a local income tax whose proceeds are distributed locally.

86. Joel B. Slemrod, "Progressive Taxes," in David R. Henderson, editor, *The Fortune Encyclopedia of Economics*, (New York, NY: Warner Books, Inc., 1993) page 338.

87. According to information provided by State Rep. Calvin Skinner, letter of April 19, 1996.

88. William J. Hunter, "Taxes and Economic Growth in Wisconsin," *Heartland Policy Study*,The Heartland Institute, October 7, 1991.

89. This effect is sometimes called the "flypaper effect." For an interesting example of where this effect works in the opposite way -- a reduction in state aid leads to a genuine reduction in local spending -- see "New Jersey Income Tax Cut Led to Savings, Not Rise in Local Taxes," by Timothy J. Goodspeed and Peter D. Salins, *Civic Report*, Manhattan Institute for Policy Research, March 1996.

90. For example, see "Illinois' Tax Climate Compared to Nation," *Fiscal Focus*, Office of the Comptroller, March 1996, page 3; Deborah C. Stone, "Tax Policy for Smarter Regional Development," Metropolitan Planning Council, January 1995; Therese J. McGuire, "Change in tax mix could benefit Illinois, *Tax Facts*, Taxpayers' Federation of Illinois, April 1993.

91. Tax Foundation, *Special Report*, April 1995, p. 5.

92. Tax Foundation, *Facts and Figures on Government Finance*, 1995, pp. 144, 147.

93. All further references to ACIR are from *RTS 1991: State Revenue Capacity and Effort* (Washington, D.C.: Advisory Commission on Intergovernmental Relations, 1993).

94. The following rankings are for tax year 1995 and based on information from the Tax Foundation, *Facts and Figures on Government Finance*, pages 194-195.

95. All figures in the following discussion of UI taxes are taken from Don Carrington and John Hood, *Whose Money Is It? Taking Control of the Illinois Unemployment Insurance Trust Fund*, Management Association of Illinois, 1996.

96. Reported in Joint Economic Committee, *Economic Policy Update*, March 1996.

97. The methodology and results of this study were first reported in Joseph Bast and Diane Bast, editors, *Coming Out of the Ice: A PLan to Make the 1990s Illinois' Decade* (Chicago, IL: The Heartland Institute, 1990).

98. For independent confirmation of this finding, see Gerald W. Scully, "How State and Local Taxes Affect Economic Growth," *NCPA Policy Report*, National Center for Policy Analysis, April 1991.

99. An alternative analysis conducted by Richard Vedder for the Joint Economic Committee of Congress, concludes that "an increase in state and local tax burdens equal to one percent of personal income lowered income growth by over three and a half percent." *State and Local Taxation and Economic Growth: Lessons for Federal Tax Reform*, December 1995.

100. Experience shows that changes in taxes don't change this relationship between personal income and employment in the state, so we can use it to calculate the number of jobs that would be lost if a $400 million tax increase were to be enacted.

101. See "Education Reform: Lessons from Michigan," by Larry Reed, *Dialogue*, Pioneer Institute, February 1996.

102. According to a January 16, 1995 news release from Michigan Taxpayers United, "total state revenue is increasing almost three times faster than the ability of Michigan families to pay" and "State of Michigan taxation and spending this year is 22 percent higher than last year." By Bill McMaster, state chairman, Michigan Taxpayers United, Inc., phone 810-443-5533.

103. According to correspondence with David Littmann, senior vice president and chief economist of Comerica Bank, Detroit.

104. Jack Roeser, president of Family Taxpayers' Foundation, made the following observation about this issue in his January 17, 1996 testimony to the Commission:

> If those citizens were concerned about equity they could tax more. Perhaps they are correct in their judgement that the public schools are not worth supporting at a higher level. After all, monopolies, especially governmental ones, have no incentive to please their customers. At any rate, the equity problem is in their hands.

105. ComEd recently won a court decision that would reduce its annual property tax bill by nearly $27 million a year. See "Edison wins ruling to slash assessments on Byron plant," *Chicago Tribune*, January 10, 1996.

106. U.S. Department of Education, *What Works*, 1986.

107. For a recent update on the controversy over Goals 2000, see Thomas Toch, "The Case for Tough Standards," *U.S. News and World Report*, April 1, 1996.

108. Another example of this conflict, this time an initiative from the conservative side of the aisle, is the proposed Parental Rights and Responsibilities Act being considered by Congress. It would require proof of a "compelling government interest" before school officials may interfere with "the upbringing

of a child." See "Schools Usurp Parents' Rights, Lawmakers Told," *Education Week*, December 13, 1995, page 18.

109. Some writers have been more explicit about their objectives. See R. Bruce Dold, "Tragic flaws mar the school-aid amendment," *Chicago Enterprise*, September 1992; and the same author more recently, "Behind the 8 ball in funding public education," *Chicago Tribune*, March 29, 1996, section 1, page 23.

110. Illinois' flat-rate income tax qualifies as a "progressive" tax, since the amount a taxpayer must pay increases with his or her income. A "progressive income tax" is redundant, though the expression is sometimes used to refer to an income tax with tax rates that increase as income rises.

111. Richard D. Laine, Associate Superintendent, Illinois State Board of Education, "Presentation to the Governor's Commission on Education Funding," n.d. (1995).

112. Chester E. Finn, Jr., "Blindspots on the Right," *National Review*, September 25, 1995.

113. See, for example, D. Strang, "The Administrative Transformation of American Education: School District Consolidation, 1938-1980," *Administrative Science Quarterly* 43 (1987), pages 352-366; Herbert J. Walberg and William F. Fowler, "Expenditure and Size Efficiencies of Public School Districts," *Educational Research* 16 (1987), pages 5-15; B. Rowan, "Organizational Structure and the Institutional Environment: The Case of Public Schools," *Administrative Science Quarterly* 27 (3) (1982), pages 259-279; and J. Kincaid, "Is Education Too Intergovernmental?" *Intergovernmental Perspective*, Winter 1992, pages 28-34.

114. Herbert J. Walberg, "Losing Local Control of Education: Cost and Quality Implications," *Heartland Policy Study,* The Heartland Institute, November 1993.

115. Ibid., page 20.

116. "Why the Proposed Illinois Educational Reforms May Lead to a 15 Point Test Score Drop," by John E. Berthoud, The Alexis de Tocqueville Institution, March 22, 1996.

117. Ibid.

118. See Mancur Olson, *The Logic of Collective Action* (Cambridge, MA: Harvard University Press, 1971) for a classic discussion of this problem.

119. Cited by Gregory A. Fossedal, "Help for Schools? Try Deregulation," *The Wall Street Journal*, March 27, 1996.

120. Organization for Economic Cooperation and Development, *Education at a Glance: OECD Indicators* (Paris: OECD, 1993), page 100.

121. See Fossedal, op cit.

122. Ibid.

123. Michael Kirst, "Recent Research on Intergovernmental Relations in Education Policy," *The Educational Researcher*, December 1995, p. 19.

124. Ibid., page 21.

125. Allan Odden and William Clune, "Improving Educational Productivity and School Finance," *Educational Researcher*, December 1995, p. 8.

126. Sheldon Richman, "Why South Carolina Should Drop Out of Goals 2000," *Issue Paper*, South Carolina Policy Council Education Foundation, March 1996.

127. Illinois State Board of Education, *Policy and Guidelines for Registration and Recognition of Nonpublic Elementary and Secondary Schools*, March 1984.

128. For more on the subject of district consolidation, see Herbert J. Walberg, "Losing Local Control of Education: Cost and Quality Implications," *Heartland Policy Study*, The Heartland Institute, November 22, 1993.

129. Charles E. Bidwell and John D. Kasarda, "School District Organization and Student Achievement," *American Sociological Review*, 1975, pages 55-70; Richard Turner, Gordon Camilli, Richard Kroc, and John Hoover, "Policy Strategies, Teacher Salary Incentive, and Student Achievement: An Explanatory Model, *Educational Researcher*, 1986, pages 5-11.

130. David H. Monk, "Secondary School Size and Curriculum Comprehensiveness," *Economics of Education Review*, 1987, page 148.

131. Herbert J. Walberg and William F. Fowler, "Expenditure and Size Efficiencies of Public School Districts," *Educational Researcher*, 1987, pages 5-15.

132. Herbert J. Walberg, "Losing Local Control of Education: Cost and Quality Implications," *Heartland Policy Study*, The Heartland Institute, November 22, 1993.

133. See John F. Witte, "Choice in American Education," *Educational Considerations,* Vol. 19 #1 (1991); Joe Nathan, editor, *Public Schools of Choice: Expanding Opportunities for Parents, Students, and Teachers* (St. Paul, MN: Institute for Learning and Teaching, 1991); Mary A. Raywid, "Synthesis of Research on Schools of Choice," *Educational Leadership*, April 1984.

134. See Part 2 of this report for an examination of the Chicago Public Schools since the 1989 Reforms.

135. F.Y.I.: The Heartland Institute does not qualify for the sales tax exemption, despite being a nonprofit, publicly supported, 501(c)3 charity.