Chapter 6: The Fruits of School-Finance Centralization

I argued in the previous chapter that Serrano constituted an unexpected “natural experiment” in education funding. It greatly centralized and equalized education funding in California, and its influence on other states, both direct and indirect, also changed their direction. This chapter examines what we know about the effects of Serrano’s legacy on spending and educational quality.

The evidence on average spending is indeterminate because Serrano caused other states to adjust without having a court decision. What seems clearer is that the decisions are fiscally regressive and hurt average educational quality. The decisions have not helped poor people generally because so many of them live in the “property rich” places whose wealth was the focus of litigation. Centralization of funding responsibilities, the outcome desired by Serrano and its progeny, seems to have reduced average public school quality and, to some extent, driven high-demand families to private schools.

These outcomes are balefully consistent with the homevoter hypothesis, since the very intention of the Serrano movement was to disconnect property value from school taxes. I demonstrate that voters are aware of this connection, and that statewide funding especially alienates the majority of the population who have no children in the public school system. Localism is not dead in school finance, but it has been wounded by a movement whose equalitarianism seems misplaced.

6-1 Has Serrano's Legacy Raised School Funding?

The previous chapter demonstrated that the Serrano decision has promoted equalization of spending and centralization of funding throughout the country, even where state courts ostensibly did not interfere with existing arrangements. Thus in one sense we now have a national experiment in school funding theory. The state judiciary has provided a experiment in what happens when school funding responsibilities are shifted from local districts to the state to a degree not demanded by the electorate. The first question of some interest is whether spending per pupil rises or falls as a result of the centralization of funding induced by Serrano and its sometimes invisible offspring.
The answer in California is clear. Fabio Silva and Jon Sonstelie (1995) compared the trend in California spending per pupil to the rest of the U.S. from before *Serrano* to years after Proposition 13. California fell well below the trend-line of growth with the onset of *Serrano*. Silva and Sonstelie concluded that half of California's drop was caused by the state’s increasing enrollments, which generally cause spending per pupil to fall (just as falling enrollments cause them to rise). The other half of the decline they attributed to the centralizing effects of the *Serrano* decision. (Sonstelie, Brunner and Ardon [2000, chap. 5] conclude that the spending decline was more likely caused by the loss of nonresidential tax revenues that had previously been earmarked for education under the local property-tax.) A noneconometric but numerically transparent study by Bradley Joondeph (1995) also documents California's fall from fiscal grace after *Serrano*.

Whether *Serrano*'s descendents in other state courts increased funding for schools in the rest of the nation is not so clear, which in itself is surprising. The expectation of the plaintiffs in these cases has been that putting the responsibility for funding on the state rather than the local fisc (or, to be more accurate about pre-*Serrano* practice, dividing responsibility between the state and the local districts) should increase resources available to schools. Perhaps not to the very highest spending or richest districts, but generally pulling up the lower tail while not reducing the spending of the average. After all, the state does not have to worry as much as local districts about raising taxes, and the considerable influence of teachers’ unions in the state capitols should have added to the pro-spending forces.

The national, econometric studies of the fiscal effects of the *Serrano*-style decisions in other states have yielded mixed results. The pioneer econometric study by Thomas Downes and Mona Shah (1995) found that sometimes states with *Serrano*-style decisions raised spending per pupil above the national trend, but in other instances it fell, as in California. Similarly mixed results were found by Joseph Manwaring and Steven Sheffrin (1995). Less ambivalent were Evans, Murray and Schwab (1997), who concluded that the average of the 11 *Serrano*-style decisions prior to 1992 caused spending per pupil to rise in those states compared to those without a court decision. Murray, Evans, and Schwab (1998) concluded that these states tended to both equalize and “level up.” Neither of the latter two studies separated out individual states, so their conclusions, though not their rhetoric, may be consistent with the mixed results of Downes and Shah and of Manwaring and Sheffrin.
6-2 State Histories Suggest a “Level Down” Response

The mixed results of the aforementioned econometric studies are partly due to lumping all of the plaintiff-victory cases into a single category of “reform.” All but Wisconsin’s did require more equalization and a larger fiscal role for the state, but the exact nature of that role was not specified in the studies. Caroline Hoxby (1997; 1998) found that legislative responses to Serrano-style decisions varied. Some legislatures adopted school-aid formulas that encouraged spending, while others (the majority of those with a plaintiff victory) adopted formulas that penalize higher spending by local districts. (Why this is so is discussed in section 6-9 below.) The effect of the newly adopted school-funding formula on local districts’ incentives, she found, was a good predictor of whether statewide spending fell or rose after it was enacted.

The other problem that afflicts attempts to assess school funding litigation as a group is that we don’t know how much individual states anticipated the court decision. Some may have lowered spending before the decision in order to collect a reserve for compliance. States in the “control group” of those without court decisions might have increased state funding to forestall an adverse decision, as my stories in section 5-16 above indicate. This is not to say that court decisions do not matter. It does suggest that broad-brush econometric studies are a less appropriate way to assess this movement than a detailed history of individual states.

Most of the individual state accounts indicate that the court decisions reduced or left unchanged previous spending totals. Neil Theobald and Lawrence Picus (1991) titled their introduction to studies of California's and Washington's experience with judge-made reform, “Living with Equal Amounts of Less.” An econometric comparison of Washington to neighboring Oregon, which did not have a similar court decision, found that Washington’s ruling reduced instructional spending growth by one percent per year (Deborah Garvey 2000). It was especially hard on the “property rich” but low-income Seattle school district, which, ironically, had been the plaintiff in the case (Seattle School District v. State 1978).

Michael Heise (1995) examined the experiences of New Jersey and Wyoming, whose courts had overturned local financing in 1973 and 1980, respectively (though both states had subsequent decisions that again overturned the legislature's response). Heise found that, when other factors that influence per pupil spending are controlled for, the court decisions had little or no effect on spending trends. Russell Harrison and G. Alan Tarr (1996) concluded that New Jersey's
considerable rise in spending per pupil after litigation began merely continued previous trends and could not be attributed to court decisions.

Murray, Evans, and Schwab’s (1998) econometric study of all states found that Serrano-style victories did not result in high spending districts being held back by the resulting reforms. Studies of individual states suggest that this was not true for the three largest states whose courts ordered reforms in their 1972-1992 sample. (Murray, Evans, and Schwab did not weight the states by size, nor did they break out results for individual states.) The three big states, California, Texas and Washington, have more than two-thirds of the students in the ten plaintiff-victory states in that period.

• California, as mentioned above, clearly pulled the high-spending districts down after Proposition 13.

• Washington State imposed binding caps on local efforts to supplement the state's constitutionally required (as declared by its supreme court) “basic grant.” Most of Seattle’s suburban districts as well as Seattle itself bump up against those caps (Margaret Plecki 1997). While local voters and many legislators would like to lift the caps, insiders to Washington politics believe that doing so would invite a lawsuit that the state would lose (Betty Jane Narver 1990).

• Texas reforms likewise show that high-spending districts were considerably constrained in their spending following the court-ordered Texas reforms (Lawrence Picus 1994). Shawna Grosskopf et al. (1997) were similarly impressed with how the Texas reforms tended to constrain the high-spending districts.

6-3 Most Poor Kids Aren’t in “Property-Poor” Districts

The main objection to the local financing of schools has been that the poor are concentrated in certain communities. The Tiebout model seems to countenance more income segregation than reformers think is healthy for the economy as a whole. The school finance reform movement has largely been motivated by a desire to make sure that poor places are not left without an adequate education. Merging the wealth of the districts with that of the state via statewide funding or property-tax base sharing has been regarded as a way to help the poor.
The most obvious problem with this claim is that a large fraction of the poor live in places that have above-average tax bases per pupil. Poor people often live in “property-rich” districts. The modest value of the homes in which they live is offset by the larger-than-average amount of commercial and industrial property located in such districts. National studies of this distribution are lacking because most data about poverty are not linked to school districts. The evidence from individual states, however, overwhelming rejects the idea that most poor people live in property-poor places.

One of the stumbling blocks to New York State's unsuccessful Serrano-style suit (Board of Education v. Nyquist 1982) was that New York City was “property rich” even though it had a disproportionate number of students from poor families. Plaintiffs attempted to avoid this problem by saying that the city suffered from the “municipal overburden” of other fiscal obligations. However the “overburden” claim is refuted by Therese McCarty and Harvey Brazer (1989), who found no evidence from national data that cities with large nonschool spending were starving their schools. Even among the suburbs, large amounts of commercial development are located in the less affluent communities (Helen Ladd 1976) in part because those communities are more willing to accommodate them with their zoning and planning laws (Fischel 1976; 1979; William Fox 1981).

The equation of poor people with property-poor communities has actually been discredited for a long time. A much-cited (for example, by Justice Powell in Rodriguez) student note in the Yale Law Journal (1972) addressed it using Connecticut data in the earliest days of the school finance litigation movement. The Yale Note found no correlation between district wealth per pupil (which in Connecticut was the town tax base per pupil) and indicators of student poverty. Poor kids were as likely to live in a property-rich place as a property-poor district. A student project by Karen Negris (1982) that I supervised found almost no correlation ($r=.04$) between tax base per capita and family income in New Hampshire.

In 1999, New Hampshire adopted a statewide property tax in response to its school-finance decision (Claremont v. Governor 1997), which said unequal tax rates could not be used to fund basic education expenditures. Twenty-seven “property rich” towns had to disgorge nontrivial sums (between $100,000 and $2 million) to fund schools in other towns. Of the 27 “donor” towns, as the victims are called, 16 had median household incomes below the median income of the state as a whole. The 16 lower-income towns had a total population that was a third larger
than the 11 donor towns whose income was above the state median. New Hampshire’s three richest (by household income) towns were not donor towns, and one of the largest contributors to the equalization effort was Lincoln, one of the poorest towns in the state that was “property rich” by virtue of a nearby ski-area.

The response to Serrano-style decisions in other states has also put the poor at a disadvantage. The State of Washington's 1977 centralization of school finance reduced revenues in districts with high percentages of poor and minority students (Theobald and Hanna 1991). Michigan's recent centralization and equalization of school funding has resulted in less money for Detroit and other poor, urban districts (Courant and Loeb 1997).

In California during the Serrano litigation, a data analysis by John Mockler, whose results were widely reported (but, as Mr. Mockler told me in 1999, not published as a report) found that most of the state's poor lived in districts with above-average property tax base (Los Angeles Times, June 30, 1974). Mockler’s study was confirmed and documented years later by Jon Sonstelie, Eric Brunner, and Kenneth Ardon (2000, pp. 20-28), who found that the poor in California were more likely to be in property-rich districts than the rich. This was mainly because Los Angeles, Oakland, Long Beach and San Francisco, whose tax base per student exceeded the state average, had, like other central cities, a disproportionate number of poor families.

Despite the foregoing evidence, several influential economics articles promote the belief that property wealth per student and personal household income are closely correlated (Murray, Evans, and Schwab 1998; Thomas Dee 2000). The problem with these otherwise sophisticated studies is that they use the term “poor district” to refer to districts with low spending per pupil from locally assessed taxes. Low spending from own sources usually indicates low property wealth, not low income. It is likely that such places are poorer than average, but that does not change the aforementioned evidence that most of the poor do not live in such districts. It is time to abandon the false equations of poor people with poor districts and rich people with rich districts.

6-4 Capitalization Moots Tax Reform's Redistributions

The other problem with attempting to redistribute wealth by evening-out tax bases is capitalization. The distribution of gains and losses by permanent redistribution of the tax base will be offset by the housing market, as Bruce Hamilton (1976) pointed out and economists have
constantly reaffirmed (Paul Wyckoff 1995; Thomas Dee 2000). If reforms really do eliminate the fiscal disadvantages of living in a “property-poor” place, then buyers of housing will bid up the price of houses in such places. This is perhaps one reason that some homeowners in such places might join a Serrano-style lawsuit against the state, even if they are perfectly happy with their schools.

Owners of homes in “property-poor” places who acquired them prior to the reform will get a nice capital gain by having lower property taxes, assuming that their public schools are not worse after the reform. Capitalization works just as well at the low end of the housing market as it does for the high end. Low-income people may be even more attentive to fiscal differences since the purchase of a home represents a larger fraction of their assets than it does for richer people.

The housing market thus quickly wipes out any gains for the poor, even if we assume (falsely) that the poor live only in “property-poor” communities whose tax rates are reduced by the reform. If school finance reform lowers the property taxes on a modest home and the tax is expected to stick, low-income buyers of that home will pay more for it. The greater mortgage and other homebuying costs will offset the lower taxes, and the buyers won’t be any better off financially than if there had been no reform at all. Likewise, buyers of homes in formerly property-rich places will purchase them at a lower price that reflects the loss of fiscal advantages, and they will be no better off or worse off than before.

The point of this nihilistic-sounding recitation is to argue that the proper focus of school finance reform should be efficiency, not taxpayer equity. It is true that capitalization undermines an important judicial rationale — tax base or tax rate inequality — that is deployed in most of the school-finance reform cases. But capitalization also undermines the rationale for returning to the previous system, if all we are concerned about is the effects of property taxes on the distribution of income and wealth. Expectations by themselves aren't a good defense for any fiscal practice. After all, people could expect enormous inequities to persist, and they would, therefore, be capitalized. So we need a better rationale for defending the interests of local homeowners in maintaining a local school system. The defense is simple: Localism seems to produce better schools.
6-5 Nonresidential Property Reduces the “Tax price”

One reason that local control produces better schools is that the local property tax system channels the revenues of nonresidential property into public education (Sonstelie, Brunner, and Ardon 2000, p.102). Commercial and industrial property lower the “tax price” faced by resident-voters in communities in which they locate. As schools appear to be “cheaper” to the voters, they will be induced to spend more on it.

The tax price is a misunderstood concept. Many people share the view of Serrano-advocate Jack Coons (1978, p. 148), who regarded the property tax rate as a price. The tax price is different, however, and is best explained with an example. Assume initially that all school funding is local and that the tax base consists exclusively of homes, each of which contains one child in school. The school board proposes an increase in school expenditures by $500,000 a year to hire more teachers and reduce class size. If there are 1000 taxpayer-voters, each with an equal amount of property — their homes — the “tax price” of the additional spending for the median voter will be $500. If a majority approve the expenditure in order to get the benefit of smaller classes, the median voter will pay $500 more in property taxes. (Having homes with unequal values alters the outcome slightly, since the values of median holdings are typically less than the mean, but that is not important for the present argument about intercommunity comparisons.)

Suppose now that another group of taxpayers is added so that the property-tax base is doubled, but the new taxpayers do not vote and add nothing to the expenses of education. For example, they might be vacation homes or stores or factories whose owners and employees reside elsewhere. The median voter now faces a tax price of only $250 for the $500,000 in spending, only half of what she previously faced.

Note that this calculation does not depend on the average value of the homes of the resident voters, which would only affect the nominal tax rate. In comparing purely residential communities, the tax price faced by the median voter is the same regardless of whether she lives in a community of mansions or of mobile homes. It is true, though, that the same value of nonresidential property, say a $100 million shopping center, will reduce the tax price of education in a community of mobile homes much more than it would in a community of mansions. That is one reason that shopping centers are often more welcome in poorer communities, even though the centers’ developers might prefer the more affluent place.
The confusion of property-tax rates with tax prices is best illustrated by the common example that advocates of statewide tax-rate equalization use. They take a “typical” home that is worth, say, $200,000, and compare what the taxes would be in various communities. In property-rich Vacationville, the rate is 1 percent and the taxes on the $200,000 home are $2000 per year. In property-poor Plainville, the tax rate is 4 percent and the taxes on the $200,000 home are $8000 per year. This is said to “prove” that the burden of public services in Plainville is four times that of Vacationville.

It proves no such thing. The owner of the $200,000 home in Plainville has a much larger or better-quality home, which, if it were moved to a lot in Vacationville would be worth much more than $200,000. The lower taxes and better public services in Vacationville would cause the house and lot to cost more, provided that the environmental disamenities of Vacationville’s nonresidential tax base did not offset that gain. No one can tell without a detailed inquiry what the exact effect will be. The main point here is to reiterate what was demonstrated above in section 3-1 (the Concord-Bow example): tax rates by themselves tell us nothing about differences in the economic burden of the property tax among communities.

Return to the issue of nonresidential property and the tax price. Because nonresidential property must be taxed at the same rate as residential, and because local school districts cannot redirect the funds from such sources to cash payments for residents, nonresidential property tax base makes schooling look “too cheap.” The average (median) voter in a district whose property tax base is one-half commercial will regard an additional $100 expenditure per household on schools as costing her only an $50 in taxes, since nonresidents will pay the rest. Because she cannot simply take the $50 payment from the nonresidential taxpayers in cash due to the “public purpose” doctrine (among others described in section 2-4 above), she will tend to vote for “too much” schooling.

As an extreme illustration, the school district that hosted the Shoreham nuclear power plant on eastern Long Island, New York, sent their children on trips to Madrid, Spain, at public expense to learn Spanish (New York Times, May 19, 1998). It was cheap to do so for the median voter because 90 percent of local school taxes were paid for by the power plant. This calculation neglects that the nonresidential property owners might also respond to the higher tax rates by removing themselves to other jurisdictions, which dampens residents’ spending enthusiasm (Helen Ladd 1975). In fact, Shoreham’s power plant never did get an operating permit, and the
school district eventually had to live within more modest means, though the failure to get a
permit was due to environmental anxieties rather than fiscal burdens. For less dramatic cases,
William Oakland and William Testa (1998) establish that industrial and commercial
developments do reduce tax prices in the way suggested here.

Some economists are willing to forthrightly say that the lower tax price is a bad idea. Helen
Ladd and Edward Harris (1995) advocate that New York State ought to disallow the taxation of
commercial and industrial property at the local level and have the state tax it at a uniform rate
and redistribute the revenues to school districts everywhere. I think this is problematical from an
efficiency criterion because it undermines local incentives to accept commerce and industry,
which almost invariably causes at least some inconvenience to the host community (section 7-5
below). Without some form of compensation, locals would be unwilling to zone for commerce
and industry in their midst.

The fiscal problem with the low tax price, however, is not local compensation for putting up
with industry. The fiscal inefficiency is the requirement that the compensation come in a
particular form, in this case, education spending. If the legal constraints that channeled the funds
to education were removed and nuclear power plants (for instance) just paid residents of the
districts in which they located $10,000 each and let them spend it however they pleased, the tax-
price distortion would be eliminated.

Now, I don’t think that this is the best solution to this “inefficiency.” (I use the quotes
because it’s a little embarrassing: “Imagine, wasting all that money on public education!”) The
reason is that the public-purpose doctrine that causes it still has a role that is useful. It offers
some protection for nonresidents from local exploitation by resident voters. It ties the fortunes of
all property owners together. By making the voters spend their nonresidential taxes on things that
continue to make the community attractive, the doctrine puts all residents in the same political
bed and helps overcome free riders.

An illustration of this effect is from the previously mentioned case of the Shoreham nuclear
plant. If the plant’s developers had simply given each resident $10,000, the residents could have
opted out of public life at the local level. By forcing the transfer to come through the public
sector, the beneficiaries must continue to cooperate with one another and with the source of their
benefits. The Shoreham-Wading River school district was a major public advocate of granting
the nuclear plant’s operating license. That it did not succeed was a major blow to the school district and the taxpayers.

6-6 Has Serrano’s Legacy “Dumbed Down” Education?

If school quality were just as good when the money comes from a statewide source as it is when the money comes from a local source, then the theory that I espouse here — that concern for their home values leads voters to select more efficient local services — would be in trouble. As this section and the next show, however, the weight of the evidence on school quality favors the capitalization theory.

Public education in California has without a doubt suffered from the effects of what I regard as the Serrano-induced fiscal regime that has prevailed since 1978 (Sonstelie, Brunner, and Ardon 2000, chap. 7). Almost no one without an office in the capitol has a good word for the state's school system, which in the late 1960s was almost as well regarded as California's university system (Peter Schrag 1998, pp. 69, 87). California's average class size in the 1980s and 1990s has become the second-largest (after Utah's) in the United States. The late Charles Benson, a founder of modern school-finance research and a Serrano advocate, glumly conceded before a Congressional Committee in the early 1990s, “You must be very careful when you wish for things because you may just get what you wish for. We worked hard for equity in California. We got it. Now we don't like it” (quoted in Hickrod et al. 1995).

The evidence from other states is less clear but still generally pessimistic. Average scores on the Scholastic Aptitude Test (SAT) are a reasonable metric for comparing student academic accomplishment among states once differing participation rates are taken into account (Graham and Husted 1993). There is a fair amount of evidence that SAT scores are worse, not better, in states that have gone down the centralization and equalization road farther than others (Sam Peltzman 1993). Peltzman (1996) also found that non-college students in states with more centralized funding did worse on the Armed Forces Qualifying Test. Two studies that focussed on other interstate differences among schools found incidentally that states with more centralized financing had lower SAT scores (Southwick and Gill 1997) and lower NAEP scores (Fuchs and Reklis 1994). Mark Berger and Eugenia Toma (1994) also found that states with more centralized finance had lower SAT scores, but the coefficient was not statistically significant.
The most extensive study of the effects of school finance reform on interstate SAT score differences is by Thomas Husted and Larry Kenny (2000). They obtained records of individual test-takers and their personal characteristics for the 34 states in which the SAT is taken by a nontrivial fraction of high school seniors. (The SAT is bicoastal; college-bound kids in the middle of the country more often take the ACT, for which information about test-takers was not available.) Husted and Kenny constructed a measure not only of average state SAT scores, but the variance in SAT scores within the state. Instead of looking at court orders, they looked at how much centralization and equalization of school funding actually changed over the period 1972-1992 and compared it to how much it would have been expected to change (as a result of demographic and political factors) after 1972.

Husted and Kenny's results show that centralization of school funding — more state money, less reliance on local property taxes — appears to have statistically significant, large, negative effects on average SAT scores. They also find that equalization (which is not the same as centralization) of spending likewise reduced SAT scores. On the less gloomy side, Husted and Kenny found that within-state variance in SAT scores was somewhat reduced by both equalization and centralization, though this result was not as robust as the pessimistic result about average scores. They conclude that equalization and centralization may make the previously lower-scoring students better off relative to the higher scoring students, but it seems largely to be a “dumbing down” effect, since the average scores are clearly reduced by both centralization and equalization.

6-7 Has Equalization Helped Low Achievers?

There is little evidence that the goal of equal opportunity is improved by achieving the goals of the Serrano litigation. Students in previously low-scoring districts did not close the test score gap after spending becomes more equalized, as Thomas Downes (1992) has shown. His much-cited evidence comes from California, where court-induced centralization resulted in an equality of paupers. (See also Sonstelie, Brunner, and Ardon [2000, chap. 10].) Perhaps it worked better in “level-up” states. Connecticut's response to the Horton decision did cause expenditures in its largest city, Hartford, to rise above the suburban average, but with no measurable improvement in student performance. As a sympathetic commentator, James Ryan (1999, p. 538) pointed out, “successful school finance reform did not make a significant difference in the academic achievement of Hartford students.”
Two studies suggest a note of optimism. David Card and Abigail Payne (1998) found that poor students did slightly better on SATs in states whose courts ordered more equalized spending. But their most elaborate regression was not statistically significant, and it is also questionable because of the low participation by the poorest students in the SAT test. (The previously mentioned studies using SAT scores looked at state averages, not the poor by themselves.)

Thomas Dee (2000) chose a different approach, one more consistent with the theme of this book. He examined states whose courts had undertaken Serrano-style reforms. He hypothesized that formerly low-spending districts should have their property values increased as a result of the additional state aid. If their schools were getting better as a result, more people would want to live there and drive up housing prices. His results suggest that at least for the formerly low-spending districts, the reforms improved education. My only objection to his clever study is his labeling of these low-spending districts as the “poor districts,” which implies that the reforms helped most poor people. As I mentioned earlier, there is no evidence that the majority of poor people live in the “property-poor” districts that are the focus of Serrano-style litigation.

Although the Card and Payne and Dee studies suggest some note of optimism about the educational results of the school-finance cases, the bulk of the evidence seems pessimistic. An important long-range goal of school-finance equalization is to narrow the gap between high- and low-wage workers (Roland Benabou 1996). A study by Eric Hanushek and Julie Somers (1999) concluded that “the three-decade-old movement toward reducing the variation in school spending within states appears to have done nothing to reduce subsequent income variations of workers.” Three decades may be too short a period to fully judge the effects, but their finding is certainly not cause for optimism.

The pessimistic results are reinforced by nonacademic commentators in other states. For example, New Jersey is often cited as a state whose response to its court decision was to increase average spending, and it has indeed remained a high-spending state. Former Governor Thomas Kean wrote a column on the occasion of New Jersey's (supposedly) final settlement in its school finance case (Bergen Record, March 8, 1998). Kean was not critical of the litigation itself, only its focus on how much the state had to pay. He mentioned the billions of dollars spent by New Jersey to comply with nine court decisions between 1973 to 1994 and concluded that
“All this taxpayer money has accomplished nothing. Test scores haven't risen; in fact, in some cases they've fallen. Dropout rates haven't improved much either. In fact, the evidence is clear. After all the rhetoric and money, the poorest children of the state continue to be warehoused rather than taught.”

With such negative assessments in the press, one would think that academics, who mostly regard court interventions as desirable, would respond with more systematic evidence. The *Journal of Education Finance* has since its inception in 1975 published scores of articles about the experience of states that have moved toward centralization and equalization. I have looked at all of them through 2000. Not one of these articles reports a single instance of measurable academic improvement from centralization or equalization for anyone, let alone the students from low-income families.

One of the few articles that addressed the accomplishment issue at all reported on Hawaii. Its public schools have long been wholly state financed, although it does not appear that its courts had anything to do with this condition. The measurable academic quality of Hawaii’s schools is disappointingly low (John Thompson 1992), which may explain why Hawaii has such an extensive system of nonsectarian private schools. As if to usher school finance litigation into the second millennium, the *Journal of Education Finance* finally published an article that evaluates the educational aftermath of litigation. A study of Tennessee districts that successfully sued the state for more funds found that after five years there was no trend toward convergence of test scores between the seventy-one plaintiff districts and the rest of the state (Peevely and Ray 2001).

6-8 Public-School Competition Raises Scores

Much of the criticism of public schools from conservative quarters characterizes them as a “monopoly.” Such critics usually recommend reforms that would break this alleged monopoly by allowing families to use public funds (“vouchers”) to send their children to private schools. But as the Tiebout model supposes, local governments, including school districts, are sufficiently numerous in most areas that footloose households in fact have a range of choices that exceeds the range found in most other markets. Public schools in most states operate in a geographic market that is highly competitive.

But does a wider range of choice among public school districts actually produce better educational outcomes? If competition among public schools makes them perform worse, the
homevoter hypothesis would take a serious blow. Thus one important test of the capitalization model's efficiency is to see whether the number of school districts in a given area by itself promotes better educational results.

The evidence on this is strongly positive. More districts means better results. Evidence on competition comes from studies of in-state scores of tests that are administered on a uniform basis and thus do not require the participation-rate adjustment that one must make in comparing states on SAT scores. Blair Zanzig (1997) looked at standardized-test scores of school districts in California in 1970 (before the *Serrano* decision). Zanzig found that twelfth-graders in counties in which there were four or more school districts had higher scores. Counties that had fewer districts had lower scores because, Zanzig inferred, there was less competition among the districts.

The same results appear in other states. John Blair and Samuel Staley (1995) found that Ohio school districts that were subject to more competition from other public school districts had better reading scores on a standardized, statewide test. Melvin Borland and Roy Howsen (1993) obtained similar results with a sample of Kentucky school districts, as did Michael Marlow (1997) with statewide scores for the U.S. as a whole.

The foregoing studies all invoked modern econometric evidence and employed extensive control variables in an attempt to keep other things equal. They all conclude that a more decentralized, localized system of financing education produces better test scores, which is consistent with my hypothesis. The trouble with them is that we do not know what caused the districts in a given area to be numerous or few. Perhaps areas with only a few districts were created that way to take advantage of scale economies. If that were the case, we could not be sure that the worse test results were not offset by some unobservable reasons for consolidation.

Caroline Hoxby 2000 invented an imaginative test to overcome these problems. She looked for metropolitan areas around the country that had natural features (chiefly bodies of water) that might separate urban areas into school districts. In areas with many such immutable dividers, the fragmentation of school districts would be “natural” in its most literal sense. (Such geographical boundaries would discourage school-district consolidation but not, in most cases, the search by homebuyers for good school districts.) Using this measure as a proxy for fragmentation and deploying the usual econometric controls, Hoxby found that a greater number of independent
school districts in a metropolitan area increased her measure of educational accomplishment (high-school graduation rates and college-going). Her most important finding was that in the competitive situation, where there are many school districts in the metropolitan area, all schools, even those serving disadvantaged populations, were better than and cost less to operate than schools in areas with only a few districts to choose from.

6-9 Why Would State Funding Impair Education Quality?

The evidence that competition improves school quality helps explain why Serrano-style decisions have apparently worsened overall school quality. Centralization and equalization of school finance undermine homevoters' influence by, in effect, reducing competition among school districts. Although the number of districts may remain the same after centralization of funding, the ability of local districts to compete is attenuated by their reduced ability to raise additional resources to, say, hire better teachers. Childless voters in such districts also have much less reason to support cost-effective education measures. Nearly every sophisticated study indicates that greater state funding reduces the efficiency of local districts (Caroline Hoxby 1998; Husted and Kenny 1997; Duncombe and Yinger 1997).

How can it be that more state funding, something usually eagerly sought by local school boards, reduces local efficiency? One reason is that the structure of state grants can penalize successful districts by reducing the amount of the grant after a certain level of spending or property wealth is reached. This causes the median voter in the district to perceive that the tax price she pays for education — the increase in her tax bill for a dollar’s increase in education spending — is higher. This is in fact what most court-induced reforms have done, according to Caroline Hoxby (1997; 1998), and she finds that disincentives for local spending do reduce a state’s spending relative to other states.

Defenders of increased state funding point out that there are ways to do it that do not undermine local district incentives. State funds could be redistributed to school districts in the form of grants that were based on family income, so that districts with many poor people could get more resources (Ladd and Yinger 1994). This would not then prevent local districts from funding education from local property taxes. Other forms of categorical grants (based on categories such as parental education, handicapped status, or poverty levels) would likewise not do much damage to the efficiency aspects of the local property tax system. Even though such
formulas are not consistent with most Serrano-style court decisions, which, for reasons described in the next section, insist that remedies be based on property wealth rather than demographic characteristics, the legislature might adopt them as a means of forestalling further litigation.

But as important as incentives at the margin are, attention to them overlooks the long-run impact of an increased state role in education. No legislature can sit by and simply let a state-funded school-aid formula do its job. It will eventually be driven to attach more strings to the funds. Liberal legislators will insist on regulations that increase the role of teachers’ unions — the mainstay of the Democratic Party since at least the 1980s. While the interests of teachers and students usually correspond in the classroom, at the state level teachers’ unions promote work rules that reduce school efficiency (Hoxby 1996). Conservatives will demand curricular reforms under that rubric of “accountability,” which further reduce the role of local districts. While in theory such legislative tinkering was always available, even when funding was mostly local, in practice, the attention of the state legislature is directed to where the state’s money goes.

6-10 Why Court Decisions Are Hostile to Property Taxes

The other reason that increased state aid undermines localism is that the local property tax became a necessary focus for the school-finance litigators. Although the poster children of most litigation are districts that are both income poor and property poor, the constitutional basis for the litigation almost always rests on the tax base issue (Kenneth Wong 1991). Variation in local property tax bases, the very quality that makes the system efficient, was the main point of constitutional attack. Any legislature that subsequently allows this seemingly obvious inequality to persist after losing a school-finance suit will always be at risk of another unhappy day in court.

It is important to understand how this focus came about. The original school-finance litigation in the 1960s did not cast local property taxation as the villain (Joseph Henke 1986, pp. 5-12). The complaint in McInnis v. Shapiro (N.D. Ill. 1968) was that children of poor families were not getting the compensatory education that they needed to succeed in life. The issue was poverty and educational outcomes, not property taxes. But this approach failed in the courts. The judges said that the remedy of equal educational outcomes for rich and poor kids was too difficult for them to monitor. They also shrank from the implications of holding inequalities of income to be a constitutionally suspect category (Frank Michelman 1969). If that were so for schools, why not for every other inequality of personal wealth?
After these setbacks, the school finance litigants then came up with Plan B. Don’t focus on educational outcomes. Focus on the easily monitored issue of revenue and expenditure. And confine the inequality argument to something that is both important and publicly financed. The school property tax thus became the object of attack because it was both measurable and confinable to a particular type of public expenditure. Judges could see that there was a definable remedy and a stopping point.

“Plan B” was the invention of three activist law professors, John Coons, William Clune, and Stephen Sugarman. They laid it out in a law journal article (1969) and expanded it in a book, *Private Wealth and Public Education* (1970), which immediately became the Bible of the school-finance litigation movement. Focus on property tax inequalities was, they freely acknowledge, a second-best argument. Their preferred system involves state funding of vouchers for low-income children (Coons and Sugarman 1978). But since the courts could not be induced to require that or any other family-background based remedy, their strategy was to attack the inequalities of the property tax base. Even if this penalized the poor in some districts (a majority, as it turned out, in California), the resulting funding system would just have to be better than what Coons had called the “pathetic American system of local non-government” (1974, p. 305).

Their strategy has worked with enormous success, at least the part that suppresses the local property tax. And it seems like the only strategy that is likely to continue to work. While some courts, such as that of Kentucky, have shown a willingness to invoke educational standards as remedies, failure to comply with these standards is almost always measured in spending per pupil (Goetz and Debertin 1992). Local funding that results in spending variations related to property-tax base is automatically suspect. To vary an old saw, when litigants say, “it’s not the money, it’s the educational standards,” you can bet it’s the money.

The special nature of the centralization induced by *Serrano*, which focussed on property tax base differences, can account for why centralization before *Serrano* had little adverse effect on public schools. Centralization of educational funding began long before *Serrano* and its progeny. The share of spending funded by local property taxes peaked at more than three-quarters in 1930 and has declined steadily to only about one-third in 1990 (Bahl, Sjoquist, and Williams 1990). Almost all of this decline was due to displacement by state funds. But legislatures in the pre-*Serrano* era had the liberty to distribute the state’s largesse in a more balanced fashion, one which took account of district variations in income and cost of living as well as property-tax
base. Once the Serrano decision elevated property-tax base — and not income or parental background or other measures of need — to the status of constitutional command, increments to the share of funding by the state became increasingly destructive of the efficiency virtues of the local property tax.

6-11 No-Kids-in-School Voters Are a Majority

So far in this chapter I have described the judicial experiments that seem to confirm the homevoter hypothesis. But one aspect of the story remains unexplored in this context: the observed behavior of voters, as opposed to the indirect evidence from housing prices. To get at this, I will explore the problem of the “no kids in school” voters.

Voting-age adults who currently have no kids in the public-school pipeline form a majority in most jurisdictions. I infer this from the fact that in 1990 only 38 percent of American adults lived in households with children under 18. From this one should subtract perhaps another five percentage points for the parents of children who attend private schools. (In fact ten percent of children attend private schools, but they may be in households with siblings in public schools, or they may want the option of moving to public schools in later grades.) By any calculation, the voters with a direct, consumer's interest in public schools are a minority in most jurisdictions.

School are often subject to voter review. Local school board elections are frequent, and “fiscally conservative” candidates have little trouble getting their message out. If the no-kids-in-public-school majority were solely concerned about their tax bills, they could vote down any increase in school expenditures, either directly or through school board elections. But they do not. Budgets are more likely to have problems in districts with a large no-kids-in-school majority, but even in these some budget is eventually passed. I take this as evidence that schooling's effect on home values is an important discipline that keeps the no-kids-in-school voters away from the polls even if they aren't enthusiastic about school taxes.

The home-value motivation should work for any voter who owns a home in which families with children might live. It is also a reason why private communities whose covenants restrict children from occupying homes should be discouraged from locating in regular school districts. In “adults only” subdivisions, better schools do little for the value of one’s own home, since it cannot be sold to families with school-age children. The travails of local education in retirement-community states like Florida and Arizona are consistent with this.
For most other places, home value is a powerful motivator for voters. Ted Bergstrom, Dan Rubinfeld, and Perry Shapiro (1982) found in their analysis of a voter survey in Michigan that voters over age 65 were unusually supportive of local school spending. The authors (all Michigan residents at the time) suggested an explanation for this seeming anomaly: If you are planning to retire to Florida, you need to sell your home at a good price, and bad schools drag down the price. Even if childless homeowners know they will stay in the community for a long time, their home is still the most important asset against which they can borrow money.

This is not to deny that homeowners who currently have children at home have a greater stake in schools than others. They are most likely to vote in school elections, and they have more knowledge of how schools are actually performing, so they are in a better position to monitor them. People who have kids in school do have an incentive to vote for more expenditures than others, although the devaluation of their homes from too-high property taxes in the future (assuming that high expenditure levels are difficult to reverse) might temper their enthusiasm for gold-plated educational programs.

Similarly, childless homeowners have fewer (but not zero) incentives to vote for school funding, especially if they plan to stay a long time (Brueckner and Joo 1991). It's like home-remodeling decisions. If you plan to stay a long time, you are more inclined to suit yourself; if you plan to move soon, you suit the market. But, like the remodeling decision, voting for durable local services is always tempered by the prospect that the homeowner will eventually sell the home. Poor investment decisions, whether in the private or in the local public sectors, will eventually come due.

I don't want to overstate the case, though. It is possible that a community with an especially large number of voters who have no children in the school pipeline and who plan to stay a long time may have less than optimal levels of school funding. The problem may be acute when the oldsters are of a different race or ethnic group than those who have kids in school (James Poterba 1997). But the alternative system urged by the heirs of Serrano is even worse in this respect. The problem of statewide funding is that it offers childless voters no financial motivation to support efficient levels of education spending. No-kids-in-school voters at the local level at least have the home-value motive. The homevoter motive is eliminated when funding is centralized.
A former Republican Party chairman in Washington State, whose schools are funded almost entirely by the state legislature, drew the implication clearly in a 1991 newspaper interview: “The fact is, there is no political profit in being a crusader for the schools. These guys [state legislators] can count votes, and they understand that parents [of school age children] account for less than one-quarter of the voters” (quoted in Theobald and Hanna 1991, p. 28).

6-12 No-Kids-in-School Homeowners Are Moved by Capitalization

There is direct, albeit episodic, evidence that home values motivate school voting. Social psychologists Kenneth Rasinski and Susan Rosenbaum (1987) did a survey of voters in a local referendum that proposed to raise property taxes considerably and spend the revenue on local education. The referendum passed — I'm pretty sure it was in Evanston, Illinois, though the authors did not specifically reveal it — and the researchers wanted to know why people supported it. One of the most frequently voiced reasons, given by people who had no children in the schools as well as those who did, was that a decline in school quality would hurt their home values.

And it isn't just Evanston. Serrano-advocate Charles Benson noticed, without benefit of a formal survey, that childless voters in Piedmont, California (a suburb of Oakland) also supported school spending in part because of its salutary effects on property values (Benson and O'Halloran 1987). Martha Jones, a Berkeley grad student and mother who lived in Piedmont, told me in 1992 that she had heard homeowners specifically invoke this at school board meetings.

Evanston and Piedmont, the skeptic might point out, are fairly affluent places. Is this behavior typical of other districts? Jon Sonstelie and Paul Portney (1980b) analyzed a school referendum in the more middle-class city of South Francisco that was held in 1970. (This was before the Serrano decisions took away most local control over schools). They concluded that “the larger is the average expected increase in property values in a precinct, the more likely it is that voters in that precinct will support the referendum” (1980b, p. 194). They titled their article, “Take the Money and Run” to highlight the fact that even voters with no plans to stay in the community and no children will be inclined to approve spending measures that will raise the value of their major asset, their homes.

The influence of no-kids-in-school voters helps explain why the “fiscal harness” theory of statewide funding does not work well. The theory goes like this. The Tiebout model allows
voters with a high demand for education to obtain it in their own communities. These same voters then oppose statewide taxes to fund schools in other places. The fiscal harness theory attempts to yoke demand for local spending with statewide spending, so that residents of high-demand districts will be willing to support statewide taxes to fund the low-demand districts (Susanna Loeb forthcoming). If you want to spend $500 extra on your own schools, you have to add something to the coffers of the entire state. Local demand is thus harnessed to the fiscal affairs of other districts.

In response to its 1970s school-finance litigation, the State of Washington moved to a more centralized system of funding. In order to keep the fiscal disparities within the limits of the state supreme court’s tolerance, the legislature imposed limits on how much extra money can be raised from local property taxes. Local districts are permitted to vote to “override” these limits in order to spend more, but there is a ceiling that most of the high-spending district are constrained by. The architects of the policy deliberately adopted these ceilings in order to induce voters in the high-spending district to support a statewide income tax (Betty Jane Narver 1990, p. 162).

The plan has not worked. Attempts to adopt a state income tax, which requires a majority-vote in a statewide referendum, have all failed. Attempts to increase funds by the roundabout method of boosting automobile registration fees were upended by a voter initiative in 1999. Washington’s schools have an egalitarian funding system, but the level of spending is low because, as most observers agree, voters will not accept an income tax (Marge Plecki 1997; Narver 1990).

One explanation for this stalemate is that the fiscal harness theory neglects the different motives of no-kids-in-school voters. At the local level, they are willing to support, or at least not opposed, high levels of spending because better schools add to the value of their homes. At the state level, no-kids-in-school voters do not perceive such an offsetting benefit for their taxes. More spending statewide, even if it does improve the schools, has little effect on any individual voter’s property values.

6-13 Capitalization Short-Circuits the “Death Spiral”

The anxiety expressed by people to whom I've explained the homevoter hypothesis is that it may be okay for upper-class places like Evanston and Piedmont, but lower-income places with declining tax base may be stuck in a “death spiral.” The idea is that as taxpaying, high-income
homeowners and industry depart, taxes must be raised, inducing still more people and industry to depart. Self-help is of no use, according to this pessimistic idea; the Tiebout model works fine for the upper crust, but not for the bottom layer, they say.

The “death spiral” argument makes no empirical sense. If it were true, then every town that ever experienced a tax increase would now be in bankruptcy, and municipal bankruptcy is a rare event. Yet one hears the argument all the time, sometimes even by economists. It was presented on behalf of Claremont, a New Hampshire town that was the lead plaintiff in the school finance suit in which I testified in 1996. Claremont once had a bustling set of textile mills, but most have closed, and its residents have had to endure higher taxes. But a visit to the town shows that home construction is proceeding, and new schools have been opened. There wasn’t any state-sponsored bailout for Claremont at that point, and no one expected one. Instead, the real estate market and the self-help motive have prevented the scenario of helplessness that the “death spiral” notion conveys.

An advertisement that has appeared several times in my local newspaper (Lebanon, N.H., Valley News, September 9, 1999, p. C8) compared the price of an eight-room home in Claremont with that of nearby Lebanon and Hanover, which have lower tax rates. The advertisement, originally sponsored by the city of Claremont and now by area realtors, pointed out that eight-room homes in 1996-1998 cost on the order of $90,000 in Claremont, compared to $137,000 in Lebanon and $238,000 in Hanover. Of course, the tax rate on the Claremont home would be higher than in the other towns (a fact the newspaper advertisement did not mention but which potential buyers would certainly discover), but a buyer who saves $47,000 by buying a house in Claremont instead of Lebanon (or $148,000 compared to Hanover) will have cash left over to pay those taxes. As real estate salespeople say, price cures all.

Claremont, moreover, is not a passive observer of the decline of its industrial base. It has an active economic development office, which has met with some success. The issue of revitalizing the town is also raised at school meetings, at which voters are asked to approve or disapprove new school spending. At one such meeting on March 11, 1995, a former mayor spoke in favor of a bond issue that would raise taxes for a new school. He invoked the Sullivan County Citizens for Tax Relief (of which he was not a member), who usually oppose tax increases, in support of the bond issue: “Their goal is property tax relief. The goal is more than just cutting budgets. The goal is to make city hall and the schools more efficient. An environment must be created that will
increase the tax base and the average pay of a worker in Claremont. Part of this will be accomplished by having an efficient education system...The school facilities will play a major role in attracting new business to Claremont.”

The budget passed.

6-14 Do Homebuyers Really Know about School Quality?

If homebuyers don't know about test scores and other indicia of school quality, it is not for lack of sources of information. Many metropolitan newspapers publish annual surveys of test scores and other data on every school in the city and in the suburbs. There's an annual book listing the 100 best schools in California, ranked by test scores. Real estate sales people have similar information for almost every metropolitan area, and, when it is to their advantage (they represent the seller in most cases) they put it right on the listing sheet.

But are homebuyers really interested in school quality, or is it just living in an elite neighborhood or community? There are a good number of econometric studies that find that districts with higher test scores have higher home values (Jud and Watts 1981, Hayes and Taylor 1996.) I reviewed in section 3-12 the evidence by political scientists that Tiebout shoppers pay attention to school quality, even if they don’t know the objective numbers. William Bogart and Brian Cromwell (1997) found that homebuyers in the suburbs of Cleveland were willing to pay substantial premiums in the form of higher home prices — on the order of five to ten thousand dollars — to live in higher-quality school districts, even though such districts had higher tax rates. Donald Haurin and David Brasington (1996) found that test scores were actually the most important determinant of variations in house values in their Ohio sample.

The problem with these studies — indeed, the difficulty facing most capitalization studies — is that many of the explanatory variables are correlated with one another. Find a district with high test scores and the same district is likely to have large homes, high family incomes, low crime rates, good sidewalks and all the other amenities that make for a good place to live. Modern econometric techniques can control for many of these correlations, but it remains difficult to erase the fact that good test scores and nice neighborhoods do seem to go together.

The study that seems best to have controlled for these problems is a Harvard PhD dissertation by Sandra Black (1998). Rather than compare homes in different communities, she used as her standard of comparison homes within the same community but in different school-attendance
zones. She had the 1993-1995 standardized test scores for the elementary schools in each of these attendance zones, which were in eastern Massachusetts communities. (She did not include Boston schools.) Thus Black did not have to worry about differences in tax rates in her comparisons, since the attendance zones were within the same school district. She further confined her comparisons to homes near the edges of the borders of attendance zones, and excluded borders that were obvious neighborhood dividers, such as freeways, rivers and parks. This controlled almost perfectly for differences in neighborhood quality, since the homes being compared were usually across a residential street from one another.

Black was assured by local officials that attendance-zone boundaries were stable, so homebuyers could rely upon being in the same elementary school zone for a long time. She found 22,000 home sales that met the boundary criteria for her sample. With the value of single family homes as her dependent variable, she was able to determine the differences in value that could be attributed to being in one attendance zone versus its neighbor. She found that being in an attendance zone whose fourth graders were at the edge of the top test-quartile of the state raised the value of the home by $4000 compared to a home in a zone whose test scores bordered on the bottom quartile of the state in scores. (Housing values in the sample averaged about $190,000.) Although $4000 is not a huge number — it is about half what previous studies had shown using interdistrict data — it is hardly trivial. It shows without much doubt that homebuyers do notice differences in test scores, or some school quality closely related to test scores, and are willing to pay a premium for them.

6-15 Begging Is a Poor Substitute for the Property-Tax

The decline of variation in spending among school districts and the related decline in the use of local property-taxation does not mean that homevoters have proportionately less interest in local education. Recall that in Sandra Black's study of the influence of test scores on home values, property taxes were identical in the different attendance zones because the comparison homes were in the same district (which in Massachusetts means the same town.) So homeowners still have an incentive to try to make sure that their schools are good. What's missing when property taxes cannot be varied is that local voters cannot use local public spending to improve schools. So they have to find other ways.
California is the leader in finding ways around the equality of spending requirement of *Serrano* and the self-imposed property-tax drought of Proposition 13. It is important to understand that both *Serrano* and Proposition 13 were directed specifically to *ad valorem* property taxes. *Serrano* said spending could not vary as a result of differences in the ad valorem property tax base, and Proposition 13 nailed that down by putting a ceiling of 1% on the property tax rate, and a 2% annual ceiling on assessment growth. For nearly all California districts, the option of raising money for the school library by increasing property-tax rates is a distant memory.

But they still raise money by other means. Private foundations are widespread, though their amount is modest and their funds cannot be deployed to support core instructional activities of the schools. Parcel taxes (based on a physical characteristic, not value), which require a 2/3 voter approval, can also be used to exceed *Serrano* spending limits. But the most important source of spending variations are gifts from Sacramento. According to Thomas Timar (1994), the legislature has created a vast array of categorical grants not based on property wealth, so that their variation is permissible under *Serrano*. Such grants are likely to be guided to districts not on educational needs or property value or poverty levels but on the ability of individual legislators to channel funds to their constituents (Dennis Leyden 1992). Influence in the state budget is the key to this largesse. Thus California is highly centralized in its school finance, but its spending has become less equal than it had been immediately after Proposition 13, and rankings of per pupil spending inequalities usually place California in the middle range of the states.

As a result of these fiscal inequalities and, perhaps, other sources of school-district differences, Los Angeles-area school districts with better education numbers had higher home values, even though *Serrano* and Proposition 13 had leveled the fiscal differences (Brunner, Murdoch, and Thayer 2001). This may explain an otherwise puzzling phenomenon. If the combination of *Serrano* and Proposition 13 leveled down California schools, wouldn't California voters now be more inclined to accept a voucher system? (Such systems give public funds in the form of per-student “vouchers,” which recipients can use to pay tuition for private or public schools other than those in their local district.)

Public funding for vouchers as a response to *Serrano* was in fact envisioned by two of *Serrano*’s original intellectual architects, Jack Coons and Steve Sugarman (1978). Their plan was tilted more toward low-income people than those that were proposed as initiatives. But the 1992
and 1996 voucher initiatives in California were badly beaten. Brunner and Sonstelie (1997) found that at least one contributing factor appeared to be that voters with strong demands for education had already made other arrangements within the public sector. Voters in districts whose home values reflected the value of better schools were especially opposed to vouchers. To adopt such a system would have reduced their home values.

The reader might reasonably ask, so what's the fuss about *Serrano* and Proposition 13? Voters seem to be getting the variation they want through private donations, parcel taxes, and influence on their state legislators. The differences are reflected in home values, just as they are in the pre-*Serrano* era. The fiscal discipline, however, is much more attenuated in the post-*Serrano* world. Homeowners who do not have children may contribute to school foundations on the principle that good schools will help their home values, but the urge to free-ride on the contributions of others is a considerable problem. Brunner and Sonstelie (1997) have demonstrated that there is surprisingly little free-riding among parents with kids in school. (They play down the pessimistic view of my California friends with school-age children that such “voluntary” payments seem a bit like extortion, with your kids as the hostages.) It is difficult to believe that owners of nonresidential property or of homes without school-age children would not be tempted to forgo the fund drive.

Appealing to one's state representatives for special favors such as school funds is a time-honored method of channeling resources to one's district. It has a time-honored name, too: the pork barrel. The problem with pork is not the project, but that the costs are spread around to the rest of the state while the benefits are concentrated. Pork thus lacks the discipline between cost and benefit other than the much looser constraints of legislative vote trading. Thus it should not be too surprising that the expenditures that are made at the state level have not been successful in improving the general quality of education in California. As the soul song says, “God bless the child that’s got his own.”

6-16 Has Equalization Mixed the Rich with the Poor?

The late Norman Williams began the 1975 edition of his multi-volume casebook on land-use law with the *Serrano* decision. *Serrano* is, of course, a school-finance, not a land-use case. Williams nonetheless made it the keynote of his book because he believed that this decision and others like it would make the evils of exclusionary zoning obsolete. With uniform funding for
schools, towns would have less incentive to zone out low-income housing that did not pay its own way.

There is some evidence that income segregation by census tract is less prevalent in metropolitan areas that have fewer school districts (Hamilton, Mills and Puryear 1975). With fewer districts, families have less reason to choose neighborhoods on the basis of public schools. Two recent studies have taken advantage of the school-finance litigation movement to see if school districts in states that have had Serrano-style decisions now mix the rich and poor more than they used to. Daniel Aaronson (1999) and Thomas Downes and David Figlio (1999) find some evidence supporting this proposition. Neither study claims that the result is strong, and both invoke the problematical proposition that all state court decisions, not just Serrano, can be viewed as exogenous events. Their results are best viewed against the finding that income segregation within metropolitan areas became more pronounced during the 1970s and 1980s, even as indicators of racial segregation declined (Abramson, Tobin, and VanderGoot 1995).

Nonetheless, the foregoing studies at least suggest that there may be an upside to the otherwise disappointing results of school-finance centralization. No one reports that the suburbs are actively rezoning to accommodate the poor. There is, however, some evidence of a reverse migration to the central cities so that the metropolitan area is less segregated by income groups. I observed some of this during my year in Berkeley in 1991-1992. A surprising number of younger faculty had purchased houses in Oakland, the down-at-the-heels big city next to Berkeley. It has some pleasant neighborhoods that are close to the university. The professors were not rich, but they could have bought homes in suburbs such as Walnut Creek or Orinda. By choosing Oakland, they contributed to income mixing within Oakland, which sounds like a socially desirable thing to do.

One should not put too optimistic a face on this, however. All of the Oakland residents that I knew who were on the Berkeley faculty (including one of the original Serrano advocates) sent their children, if they had any, to private schools. I surmise that one of the reasons that they did not live in the suburbs was that the public schools were no longer so attractive there. But they certainly were not about to subject their children to the Oakland public school system. Their behavior is consistent with the findings of Downes and Figlio (1999), who summarized their work and Aaronson’s on school-finance reform’s influence on location decisions and concluded (p. 107), “The evidence is wholly consistent with the notion of highly educated families moving
to central cites in response to school finance reforms and sending their children to private schools.”

6-17 Private Schools Have Been Transformed

Thomas Downes and David Schoeman (1998) found that private school enrollment rose in California just after Serrano II and Proposition 13. Downes and Shane Greenstein (1996) found that individual private schools in California opened in response to concerns by high-demand residents that public schools had declined. But the increase in private schooling in California, from ten to twelve percentage points, is hardly massive, and its growth does not seem to have persisted into the 1990s (Sonstelie and Brunner 1999). This is perhaps because the high-income suburbs have adjusted to the public constraints with private financing, as Brunner, Murdoch, and Thayer (1999) suggest.

But the stability of private school enrollments after Serrano may hide an important nationwide shift. Catholic schools, which are the largest category of private schools, have changed radically over the last twenty-five years (Byrk, Lee, and Holland 1993, pp. 23-34). Their clientele up to the 1960s consisted largely of immigrant families who sent their children to parochial schools for religious and cultural reasons. That component of Catholic school clientele is now much reduced. Nowadays Catholic schools are sought by both Catholic and non-Catholic refugees from urban public schools who seek an education that is, by most measures, better than in the public sector (Evans and Schwab 1995).

Moreover, Catholic schools’ share of education enrollments has slipped from 12 percent in 1965 to 5.4 percent in 1990 (Byrk et al. 1993, p. 33). For the national private-school attendance fraction to have remained steady (at around 12 percent of school-age children) over this period, other types of private schools, in which matriculation is more likely to be for academic reasons, must have expanded during the period. Some of this represents the effects of public-school desegregation, but even in this case, many if not most of the refugees from big-city busing are families concerned about educational quality, not the race of their children’s classmates. Big-city parochial schools are fully integrated with respect to local racial conditions (Byrk et al. 1993). Hence the national stability of overall private school enrollment masks the extent to which public school decline has driven educationally ambitious families to private schools.
The trend toward private schools whose cachet is better education rather than religious environment (though I don't deny that the two may be related) seems to be a legacy of *Serrano*. Indeed, the possibility that parents dissatisfied with the quality of public schools would send their children to private schools in response to *Serrano* was anticipated by none other than the litigation's intellectual architects. “If they do leave, it will be principally because the legislature has decided to have inferior public education” (Coons, Clune, and Sugarman 1969, p. 419). Their conditional prediction seems to have come true, though it seems doubtful that the declining quality of the public schools since 1969 is entirely the fault of the state legislatures.

**6-18 Conclusion: A Negative Experiment in Homevoting**

Public education is the premier example of a public service that can be financed at both the local and the state level. I have used the judicial revolution in education funding to advance my hypothesis that the homevoter model yields different and more accurate predictions about public decisions than a unified model that treats local governments as if they were little states. Homeowners’ concern about the value of their major asset makes them more attentive to the benefits and costs of education regardless of whether they have children in public schools. My hypothesis explains Proposition 13 and its persistence without relying on a view of voters as irrational or myopic, and it explains why the apparent quality of public education has declined nationwide as the states’ share of funding for it has risen.

While I have examined centralization mainly from its effects on the quality of schools in this chapter, there is evidence that loss of local property taxation reduces civic engagement generally. After California’s Proposition 13 undermined the property tax, interest in local affairs generally seems to have dropped (Alvin Sokolow 1998, p. 184). This was especially true for school boards, which now attract people with personal crusades instead of sober-sided business leaders concerned that their tax money was being put to good use. As Peter Schrag (1998, p. 74) deftly put it, “No representation without taxation.”

The normative implications, which I do not claim to have worked through entirely, seem to point to the possibility that court-ordered centralization of school finance and the supposed fiscal disparities that have driven it are largely wrongheaded. Centralization produces less effective schools, and equalization of local tax burdens creates temporary capital gains and losses to both rich and poor in a pattern that promotes no coherent principle of wealth redistribution. I have
criticized the hubris of the judicial reformers in other places (Fischel 1998b), so I will not explore here the many reasons that courts are clumsy institutions for social change. In fact, I owe some debt to the *Serrano* court for providing the basis for a natural experiment in change that allows insights into the system of local government. But after 25 years of judicially induced school-finance centralization, the experiment does seem to be outliving its usefulness even for social scientists.