

SAVE OUR SCHOOLS

Education Research Brief

Money Works in Education

Evidence that money works in education continues to accumulate. A new study published in the latest issue of the [American Economic Journal: Economic Policy](#) shows that increased expenditure on schools improves student outcomes. It found substantial positive effects of increased spending on test scores, dropout rates, and post-secondary enrolment.

The study analysed the relationship between school spending and student outcomes in the US state of Wisconsin. It found that a three per cent increase in operational expenditure per student per year over ten years resulted in an increase in test scores of three to four percentage points, a nine per cent reduction in school district drop-out rates and a ten per cent increase in the students who completed high school and enrolled in post-secondary education.

The study concluded that:

..the results are driven, at least partially, by a combination of reductions in class sizes and teacher attrition, additional licensed staff, and increases in teacher experience and compensation. [p. 27]

The study exploited a unique aspect of the Wisconsin school finance system to analyse the impact of increased expenditure. Since 1993-94, state-imposed revenue limits have capped the total amount of revenue that a school district in Wisconsin can raise for operating expenses. If a district wishes to exceed these caps, it must ask for voter approval in a local referendum. In practice, district residents who vote in favour of the initiative agree to a predetermined increase in their property taxes. Since 1993, roughly 1,200 referenda to override revenue limits have been held.

The study compared the revenue limits and total expenditures of school districts where a similar initiative at some point in time was narrowly successful to those where the initiative was narrowly defeated. It found that, relative to districts where an initiative was narrowly defeated, school districts that barely pass a referendum spend roughly \$300 (3 per cent) more per student each year in the years following the election.

Two-thirds of the additional resources were spent on reductions in student-staff ratios, increases in average teacher salaries, and increases in average teacher experience (potentially due to decreased teacher attrition). The remainder was spent on support services for students to improve attendance, health services such as medical, dental and nursing, and career guidance services.

The study found its results were similar to those of two other studies of different school grades and institutional contexts. It conservatively estimated that an additional \$1,000 per-student in operational expenditures increases tenth grade math test scores by roughly

23 per cent of a standard deviation, which is highly significant.

The results of the study are consistent with those of many other recent studies of school expenditure and outcomes. [Twenty-five other studies](#) since 2015 have shown increased expenditure on schools improves student outcomes, especially for disadvantaged students.

The evidence shows that additional school resources improve short- and medium-term outcomes such as test scores and educational attainment and longer-term outcomes such as wages, employment, and income mobility. As the new study notes: “There is a growing consensus in the economics of education literature that increases in school funding generally improve student outcomes” [p. 1].

In Australia, critics ignore the extensive evidence that money works in education. Instead, they claim that international test results for mostly Year 10 students have declined while funding has increased. However, it is clear that large funding increases have been badly misdirected to the school sector least in need. They also ignore the fact that Year 12 results have improved over the past 20 years and that nearly [three-quarters of students don't fully try](#) in the international tests.

Private schools have been lavished with money over the past decade while public schools have been denied the funding needed to make a difference for the vast majority of disadvantaged students. Combined Commonwealth and state government funding per student, adjusted for inflation, for private schools has increased by nearly [five times that for public schools](#) over the last 10 years.

A dramatic change in school funding policies at both the Commonwealth and state levels is needed to ensure that public schools are fully funded to meet the challenges they face. The forthcoming Federal election provides a new opportunity to act on the volume of evidence that money works in education, especially for disadvantaged students.

7 March 2022

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