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Series: Sununu, John, Files
Subseries: Cabinet Agencies Files

OA/ID Number: 29187
Folder ID Number: 29187-002

Folder Title:
Cavazos (Education) (1990)

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Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01. Memo	From James Watkins to John Sununu Re: Scholarships for Minority Students (1 pp.)	12/17/90	P5	

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff, White House Office of
Series: Sununu, John, Files
Subseries: Cabinet Agencies Files
WHORM Cat.:
File Location: Cavazos (Education) (1990)

Open on Expiration of PRA
 (Document Follows)
 By JP (NLGB) on 5/12/05

Date Closed:	12/13/2004	OA/ID Number:	29187-002
FOIA/SYS Case #:	1998-0004-F[1]	Appeal Case #:	
Re-review Case #:	2005-0426-S	Appeal Disposition:	
P-2/P-5 Review Case #:		Disposition Date:	
AR Case #:		MR Case #:	
AR Disposition:		MR Disposition:	
AR Disposition Date:		MR Disposition Date:	

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P-1 National Security Classified Information [(a)(1) of the PRA]
 P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
 P-3 Release would violate a Federal statute [(a)(3) of the PRA]
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 P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
 P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

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Freedom of Information Act - [5 U.S.C. 552(b)]

(b)(1) National security classified information [(b)(1) of the FOIA]
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 (b)(9) Release would disclose geological or geophysical information



The Secretary of Energy
Washington, DC 20585

December 17, 1990

THE CHIEF of STAFF
has seen

MEMORANDUM FOR THE HONORABLE JOHN H. SUNUNU
CHIEF OF STAFF TO THE PRESIDENT

SUBJECT: SCHOLARSHIPS FOR MINORITY STUDENTS

John:

I know you don't need any extraneous advice on this issue, but I feel compelled to send you my vote anyway. The subject, of course, is the Department of Education's decision to prohibit colleges and universities from providing scholarships specifically targeted for minority students.

While the lawyers argue the fine points of the law, we are witnessing seriously declining enrollments of black and other minority students at the undergraduate level and at the very time when we urgently need more...particularly in science and engineering. As the demographic pool changes in the United States, the skills and talents of these young people, many of whom attend college by using the scholarships which are now in question, are desperately needed for future national leadership roles. It is wrong to eliminate one avenue for these young people because of some arcane legal argument.

I vote in favor of swift reversal of the Department of Education decision.


James D. Watkins
Admiral, U.S. Navy (Retired)

1. The Administration fully endorses voluntary affirmative action in higher education, and encourages educational opportunities for disadvantaged students.

2. DoEd has decided that the Title VI regulations will be interpreted to permit federally funded universities to administer scholarships established and funded entirely by private persons or entities where the donor restricts eligibility for such scholarships to minority students.

3. Race-exclusive scholarships funded by state and local governments, however, are covered by the Supreme Court's decisions construing the Constitution and thus cannot be addressed administratively. ~~In addition, private universities may not fund race-exclusive scholarships with their own funds.~~

4. Given the evident ^a confusion among the universities on this point, the DoEd will provide universities a four year transition period in order to permit universities to review their programs under Title VI. The Department of Education is eager to provide technical assistance to any institution during this ^{four year} period. Such technical assistance has helped many universities administer their scholarship programs in full compliance with Title VI. ^{purpose}

5. During the four year transition period, the Administration will not ~~initiate~~ ^a a broad compliance review with respect to minority scholarships but will investigate any complaints received.

6. The Administration will encourage state legislatures, local governments, and private universities to carefully review and analyze the difficult legal restrictions on minority scholarship programs imposed by the courts, so that these entities may continue to the fullest extent possible to provide scholarship assistance to minorities and other persons in need.

Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
02. Memo	From Marlin Fitzwater to John Sununu Re: Release of Scholarship Decision (1 pp.)	12/17/90	P- 7	

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff, White House Office of
Series: Sununu, John, Files
Subseries: Cabinet Agencies Files
WHORM Cat.:
File Location: Cavazos (Education) (1990)

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THE WHITE HOUSE
WASHINGTON



December 17, 1990

THE CHIEF of STAFF
has seen

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: MARLIN FITZWATER

SUBJECT: RELEASE OF SCHOLARSHIP DECISION

In order to put this in an orderly context, I suggest the following public announcement plan.

1. At 9:30 this morning, when announcing the new Education Secretary, the President would give a brief answer along the following lines:

"I was very disturbed by the decision last week on minority scholarships because I believe such scholarships are important to extending educational opportunity to all Americans. I also understand there are legal implications which must be considered. I therefore have asked the Education Department to review its decision of last week, and to consult with members of the White House Staff, the Justice Department, and others in the formulation of an approach that will ensure that our minorities continue to receive appropriate scholarship help. I don't want to discuss the specific legal or policy issues involved until the Education Department has completed its review."

2. Have Mr. McWilliams announce his conclusions no later than 4:00 this afternoon. If it can't be done by then, it should be held until the following day.
3. Mr. McWilliams should hold a press conference at the Education Department in order to place the venue for the decision in the public's mind, and to demonstrate the thoughtful consideration that has been given to this matter.

FOR RELEASE
DRAFT

Contact: Etta Fielek
(202) 401-3020

**DEPARTMENT ISSUES POLICY STATEMENT
ON RACE-EXCLUSIVE SCHOLARSHIPS**

Assistant Secretary of Education Michael Williams today announced a six-point administrative policy regarding race-exclusive scholarships to prevent disruption to the efforts of colleges and universities to attract minorities to their campuses and to reassure students that no scholarships that have already been awarded, whether in the current year or in a multi-year cycle, will be affected in any way.

Williams, head of the Department of Education's (ED's) Office for Civil Rights, said the six points are:

1. The Administration fully endorses voluntary affirmative action in higher education, and encourages educational opportunities for minority and disadvantaged students.
2. ED has decided that the Title VI regulations will be enforced in such as way as to permit universities receiving federal funds to administer scholarships established and funded entirely by private persons or entities where the donor restricts eligibility for such scholarships to minority students, although under Title VI private universities receiving federal funds may not fund race-exclusive scholarships with their own funds.

-MORE-

- 2 -

- # 3
3. Race-exclusive scholarships funded by state and local governments, however, are covered by the Supreme Court's decision construing the Constitution and thus cannot be addressed administratively.
 4. Given the evident confusion among the universities on this point, ED will provide universities a four-year transition period in order to permit universities to review their programs under Title VI, and to assure that any students under scholarship, or being evaluated for scholarship, do not suffer. ED is eager to provide technical assistance to any institution during this four-year period. Such technical assistance has ^{already} helped many universities administer their scholarship programs in full compliance with Title VI.
 5. During the four-year transition period, the Administration will not pursue a broad compliance review with respect to minority scholarships but will fulfill its statutory obligation to investigate any complaints received.
 6. The Administration will encourage state legislatures, local governments, and private universities receiving federal funds to carefully review and analyze the legal restrictions on minority scholarship programs imposed by the courts, so that these entities may continue to the fullest extent possible to provide scholarship assistance to minorities and other persons in need.

- 3 -

"We are eager to work with schools during this transition period to provide the broadest access possible to minority students to the financial aid they need," Williams said.

"We will handle those complaints as we have in the past: we will work with the institution to review its programs under Title VI. Because of the unfailing cooperation of institutions of higher education, we have not to date initiated an enforcement action for non-compliance with Title VI regulations."

"This position is consistent with the Administration's strong endorsement of voluntary affirmative action programs in higher education," Williams said.

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THE CHIEF of STAFF
has seen

THE WHITE HOUSE
WASHINGTON

December 12, 1990

Dear Larry:

With deep regret I accept your letter of resignation. For more than two years, and under two Presidents, you have distinguished yourself through your devotion to improving the education of our Nation's children.

With your help and guidance we assembled the 50 State Governors in Charlottesville for a historic education summit. There, we established a consensus for a set of national education goals, which today are the driving force behind our education agenda. Your tireless promotion and pursuit of these goals has set us on a path to educational excellence through the end of the decade.

I was particularly proud, Larry, to stand with you last September to announce an Executive Order on Educational Excellence for Hispanic Americans based on the findings of the task force you led. Hispanic Americans in every community are indebted to you for the inspired leadership you have provided.

Barbara and I will always be grateful for the sincerity, diligence and care you brought to the Office of the Secretary. On behalf of students, parents and teachers across the Nation, let me thank you for your dedicated service.

Sincerely,



The Honorable Lauro F. Cavazos
Secretary of Education



UNITED STATES DEPARTMENT OF EDUCATION

THE SECRETARY

December 12, 1990

The President
The White House
Washington, DC 20500

Dear Mr. President:

I, Lauro F. Cavazos, hereby resign as United States Secretary of Education, effective close of business, December 15, 1990.

I appreciate the opportunity to work with the Administration in helping to further its goals toward excellence in education. I am especially proud of the contributions I was able to make in expanding choice in education, promoting the Executive Order on Excellence in Education for Hispanic Americans, and raising awareness of the growing diversity of America's student population.

I have only the greatest expectations and highest hopes that each child in America will be educated to his or her fullest potential.

Respectfully,


Lauro F. Cavazos

Education secretary is flunking the job

By Thomas Toch
and Kenneth T. Walsh

George Bush may have pledged to be the "education president," but his appointment of Lauro F. Cavazos as secretary of education has been a disaster.

The grandfatherly 63-year-old Texan has been virtually invisible in the struggle to improve the nation's schools, and the Department of Education has drifted aimlessly on his watch.

The former anatomy professor and president of Texas Tech University was initially appointed by President Ronald Reagan in August 1988, largely in the hope that his Hispanic heritage and Texas roots would buttress the Bush campaign in the state. From the beginning, he has supplied more platitudes than leadership on education.

At a news conference earlier this year, he called for the "restructuring" of the nation's schools. What is restructuring? Said Mr. Cavazos: "Those strategies that you have to bring about in the operation of schools in order to improve the schools." He shuns the media coverage that could help him communicate the administration's education message, saying in a recent interview, "I'm not looking for press."

Mr. Cavazos calls himself a coalition-builder. But he has been far less successful in raising the public debate on education than his abrasive but ideas-oriented predecessor, William J. Bennett, now the director of national drug control policy. A master of the "bully pulpit," Mr. Bennett also wrote a series of provocative reports on topics such as elementary schools and curriculum during his tenure. Mr. Cavazos is friendlier with the educational establishment than his predecessor, but he has lacked the drive and political savvy to move beyond fence-mending meetings.

"He can't get anyone to do anything," said an administration source who knows Mr. Cavazos' work. "He lectures; then there's no follow-up."



ASSOCIATED PRESS

LAURO F. CAVAZOS
Appointed by Reagan

"There are some talented staff at the department, but they aren't getting any marching orders."

JEANNIE ALLEN
Heritage Foundation

A lifelong academic, Mr. Cavazos is far out of his element in the rough-and-tumble world of public policy. He has gone a long way toward alienating his core constituency: Hispanics. In March, Hispanic lawmakers who represent severely impoverished Hispanic school dis-

tricts in Texas' Rio Grande Valley walked out of Mr. Cavazos' address to a joint session of the Texas Legislature after he declared that "money is clearly not the answer" to "the education deficit."

His management of the Department of Education has been troubled at best. Staff members at the department's headquarters describe the slow-keyed secretary as "detached" and "not fully engaged."

"Decision memos frequently sit in his office for weeks, some never to be resolved," said one official.

In sharp contrast to the hard-charging Mr. Bennett, Mr. Cavazos has no clear blueprint for the Education Department to push the president's policy proposals, which include alternative teacher certification and rewards for top teachers and schools. "He never takes a strong enough role to get initiatives off the ground," said a department official.

As an example, a departmental math and science initiative has been stalled for months in the absence of leadership by Mr. Cavazos. Said Jeannie Allen, an education specialist at the generally pro-Republican Heritage Foundation: "There are some talented staff at the department, but they aren't getting any marching orders."

To the dismay of many at the department, one of the most prominent members of the secretary's "staff" is his wife of 35 years, Peggy Ann Cavazos. She arrives daily at the department with her husband. Though not on the government payroll, the former nurse and mother of 10 has a "working office" adjacent to the secretary's and is actively involved in the department's affairs.

She reads and edits the speeches, policy papers and other information sent by department staff to the secretary. She regularly participates in senior staff meetings in the secretary's office, including a recent session on the department's controversial rankings of state educational performance. On more than one occasion, Mrs. Cavazos has persuaded her husband to reject recommendations from the department's top presidential appointees on highly technical matters of policy.

More....

The secretary's staff frequently defers to Mrs. Cavazos over the secretary's schedule.

"Ultimately, things that have to get done get done," said one source, "but frequently there are elaborate machinations to get from point A to point B" caused by Mrs. Cavazos.

Mr. Cavazos' detached demeanor and his wife's high profile in the department have left many Education Department staff members deeply frustrated. The situation nearly caused Undersecretary of Education Theodore Saunders to resign this spring, and his relationship with his

boss remains "strained," according to department officials.

Mr. Cavazos insisted in a recent interview that he is "calling the shots" on education within the administration and that his office "is setting the pace and direction for education in the U.S. in a strong, forceful and responsible way." But Mr. Cavazos clearly has been eclipsed as the president's top education adviser by White House aides, particularly Roger Porter, the president's domestic policy adviser.

It was Mr. Porter, for example, who drafted an administration education bill last year and planned last fall's education summit with the nation's governors in Charlottesville, Va. It was he who negotiated a series of national education goals with the governors. And he, not Mr. Cavazos, represented the administration on education at the National Governors' Association's annual meeting in Mobile, Ala., this summer, where strategies for achieving the goals were hammered out.

"Roger has effectively cut the secretary out of presidential decision-making on education," said a department official. Mr. Porter denies having done so, but recently key Cavazos deputy Charles Kolb moved to Mr. Porter's staff at the White House in a move that symbolized the shift of power.

Though he bristles at references to Mr. Porter's ascendancy or to Mr. Bennett's energy in the job, Mr. Cavazos seems to have settled into a routine of semiretirement at his Cabinet post. Department staff members say that he takes leave frequently and regularly works short days, arriving with his wife between 8:30 and 9 a.m. and leaving at his "target departure time" of 4:45. Rather than flying to travel destinations to save time, he often drives long distances on official business in his Cadillac.

There is no shortage of suggested replacements for Mr. Cavazos. Former Tennessee Gov. Lamar Alexander, now president of Drew University, tops the list. David Kearns, chairman of Xerox Corp., and Donald Petersen, retired chairman of the Ford Motor Co., have been mentioned more recently. Yet Mr. Cavazos remains the nation's top educator. Why?

Partly because the White House loathes the potential political consequences of firing the nation's first Hispanic Cabinet secretary. Also, administration officials say that domestic policy adviser Porter likes the added influence that the role of surrogate education secretary gives him with the president.

The political dynamic for Mr. Cavazos may change in the coming months. According to administration officials, the Education Department's inspector general is investigating Mr. Cavazos' travel habits and his wife's role at department headquarters. The inspector general's office won't discuss its work, but a number of past and present Cavazos aides have already been interviewed.

Even if Mr. Cavazos is cleared, Mr. Bush is approaching the midpoint of his presidency and may move to bolster his administration's weaknesses as the White House looks ahead to a re-election bid in 1992. White House pollster Robert Teeter is said to be especially worried that Mr. Cavazos is shaping up as a major political liability. If so, the genteel Texan may be propelled into the full-time retirement he announced at Texas Tech shortly before Mr. Reagan made him the nation's educational leader.

Thomas Toch covers education for U.S. News & World Report. Kenneth T. Walsh is White House correspondent at U.S. News.

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(George Bush Library)

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THE WHITE HOUSE
WASHINGTON

April 30, 1990

THE CHIEF of STAFF
has seen

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: ROGER B. PORTER *RBP*

SUBJECT: Education Spending

Last week you asked about studies and facts dealing with education spending in the U.S. Some policy institutes are now rising to the occasion following all the publicity that was attached to the Economic Policy Institute's claims that we are way behind other countries in spending on education.

The Hudson Institute has prepared a briefing paper entitled "The Acanemia Deception," which they will officially release on May 11. It refutes the Economic Policy Institute's assertion that the U.S. lags other industrialized countries in its spending on education. And, indeed, makes the case that administration officials have been making -- that we spend more than other countries.

It also makes a case for the need for putting more into education R&D. I think you will enjoy it.

Attachment

THE "ACANEMIA" DECEPTION

- o "By bringing technology into the heart of the policy equation, THE ACANEMIA DECEPTION redefines the national debate on education and the economy."
- o "Hudson Institute's new study shatters the myth that U.S. education is underfunded."
- o "Perelman's paper is must reading for every U.S. business executive and political leader who is seriously concerned about America's human capital crisis."

FACTS

- o The education sector's productivity trails far behind that of any other major industry. Education's labor costs are 93% of output, compared with 54% for the average U.S. business. (See Exhibits 6 and 6a, p. 12 and p. 14)
- o Education invests 100 to 1000 times less in R&D or in acquiring technology than most businesses, and several thousand times less than high-technology industries. (See Exhibits 6 and 6a, p. 12 and p. 14)
- o Contrary to the claim of the Economic Policy Institute, the United States spends more on K-12 education than any major nation. U.S. K-12 expenditures per student exceed those in any other OECD nation except Switzerland (a country far too small for relevant comparison). (See Exhibits 1 and 1a, p. 3 and p. 4)
- o The overwhelming majority of research studies show no relationship between school expenditures and student performance. (See Exhibit 5, p. 11)
- o Students in countries that spend considerably less on schools than the United States--notably South Korea and Spain--score markedly higher on international achievement tests than American students. (See Exhibit 4, p. 8)
- o R&D investments are as minuscule a share of education expenditures in seven European nations as in the United States: only a small fraction of one percent. (See Exhibit 7, p. 15)

QUOTES FROM THE REPORT

"America is not shortchanging education. Education is shortchanging America." (p. 3)

"Restructuring education does not require bigger budgets but different budget priorities." (p. 2)

"The failure to consider education's lack of productivity makes the myth of a school spending 'lag'--to the extent it influences policy--subversive to economic development and competitive leadership." (p. 7, paraphrase)

"While the [Bush] administration has correctly tried to refocus the education reform debate on 'results not resources,' its lack of a compelling strategy to achieve more learning at less cost--which we have the technology to attain--has left the siren call for more school spending unchallenged and unscathed." (p. 24)

"The attempt to solve education's productivity problem by buying even more of the same academic education is like trying to cure alcoholism by subsidizing the price of bourbon." (p. 10)

"Gillette spent more on R&D to invent a better razor blade than all the states combined spent to develop a better teaching technology than the medieval 'Yak in the Box' (the classroom lecturer)." (p. 13, paraphrase)

"About as many American adults need further basic education as there are children in U.S. public schools. Yet for every dollar spent on K-12 education for children in the United States, less than a penny is spent on basic education programs for adults." (p. 17)

May 1990

ADVANCE COPY -- EMBARGO UNTIL MAY 7

MAY 11

No. 120

THE "ACANEMIA" DECEPTION

**How the Myth that America "Lags" in Education Spending
Threatens to Undermine National Competitiveness**

by Lewis J. Perelman

[SUMMARY: America's academic bureaucracy, abetted by a recent report from the Economic Policy Institute, is spreading the myth that U.S. schools are financially undernourished compared to those of other nations. The truth is just the opposite: U.S. spending on education is "unsurpassed" (as President Bush has said). The "lag" in U.S. education is not in spending but in productivity: American schools actually are "shortchanging" the nation by wasting some \$100 billion a year through sprawling bureaucracy and outmoded technology. Increasing budgets for obsolete schools will waste resources and delay the educational restructuring needed to compete in the 21st century economy.]

Statistics, Mark Twain observed, can be more deceptive than lies, or even "damned lies." His judgment would not have been shaken by *Shortchanging Education*, a recent paper from the Economic Policy Institute which uses tortured statistics in an attempt to

discredit President Bush's contention that the focus of education reform "must no longer be on resources; it must be on results"--the central conclusion of the "Education Summit" meeting last September that formed the basis for the national education goals jointly endorsed by the president and the governors this winter. To thwart the president's initiative, America's academic bureaucracy has used the erroneous EPI report to bolster that lobby's habitual argument that spending, not achievement, is the essential measure of educational progress.

The Briefing Paper by EPI analysts Edith Rasell and Lawrence Mishel, published in January 1990 by the Washington-based think tank, claimed to show that the United States trailed 13 other "industrial" countries in spending on elementary and secondary (grades K-12) education, contradicting the Bush administration's assertion that U.S. education spending is "unsurpassed." In an

Lewis J. Perelman is a Senior Research Fellow at Hudson Institute. He is co-director of Hudson's Project Learning 2001, a program sponsored by eight U.S. corporations and foundations, aimed at devising strategies to restructure America's education and training systems. A former senior scientist at the Jet Propulsion Laboratory and planning director for Holiday Corp., Dr. Perelman is the author of *Technology and Transformation of Schools* (National School Boards Association, 1987) and *The Learning Enterprise* (Council of State Planning Agencies, 1985).

schools are better than another's, but that traditional academic systems--in other nations as well as the United States--are woefully inadequate to meet the challenges of a knowledge-age economy.

America is not shortchanging education. Education is shortchanging America.

WHY EPI IS WRONG

Although the EPI paper was immediately shown to be erroneous and deceptive by other analysts,¹ its faulty findings nevertheless have been widely reported as "fact" by the press, and are being continually repeated by academic lobby PR. Because the EPI report has been used so effectively by the academic bureaucracy to perpetuate the myth that U.S. education is underfunded--and because this "spend-more" campaign threatens once again to stymie the fundamental changes needed in the nation's education systems--the EPI study's errors urgently need public exposure.

The explicit objective of the Rasell and Mishel paper is to discredit the contention of the Bush administration and many of the nation's governors and business leaders that America's comparative weakness in educational achievement cannot be attributed to a lack of investment, since the United States spends more on educating its students than just about any other country on earth. Yet the EPI analysis fails to disprove what is, in fact, the truth.

As Exhibit 1 shows, in the most accurate assessment of pre-K through secondary education expenditures per student among industrial (OECD) nations, the United States ranks near the top of the list, second only to Switzerland.² And Switzerland, a nation about

the size of New Jersey, is hardly a relevant model for the United States.³ Adding more countries would still leave America near the top. By any practical standard, U.S. spending on its students is "unsurpassed."

Erroneous measures. EPI's Rasell and Mishel have attempted to obscure this reality--with all too great success--by deflecting attention to the meaningless comparison of

Exhibit 1 INSTRUCTIONAL EXPENDITURES PER STUDENT* (Pre-K through Grade 12)

Switzerland	\$3,683	1985
United States	3,310	1985
Sweden	3,214	1985
Canada	3,192	1985
Denmark	3,089	1986
Norway	2,900	1985
Luxembourg.....	2,596	1983
Austria	2,497	1985
West Germany	2,253	1985
Belgium	2,234	1985
France	1,996	1984
Australia	1,995	1985
United Kingdom ..	1,897	1984
Netherlands	1,860	1984
Japan.....	1,805	1985
New Zealand	1,262	1985
Italy	1,249	1983
Ireland	1,108	1984
Portugal	911	1985
Spain	598	1979
Greece	514	1984
Turkey.....	241	1985

*Based on OECD 1985 Purchasing Power Parities (PPP) Index.

Source: U.S. Department of Education

Exhibit 2
EPI COMPARISON OF EDUCATION EXPENDITURES/GDP (1985)
Share and Rank

	(1) K-12 and Higher Education		(2) K-12 Only		(3) Adjusted* K-12	
United States	6.8%	2	4.1%	12	4.1%	14
Australia	5.5	12	3.7	15	3.9	15
Austria	5.8	11	4.7	7	5.9	2
Belgium	6.1	7	4.9	5	4.9	5
Canada	6.8	2	4.7	7	4.7	8
Denmark	6.0	8	4.5	10	4.8	6
France (84)	5.9	10	5.1	3	4.6	9
F. R. Germany	4.6	16	3.5	16	4.6	9
Ireland (84)	6.0	8	5.0	4	3.8	16
Italy (83)	4.8	15	4.1	12	4.2	13
Japan	6.5	5	4.8	6	4.8	6
Netherlands (84)	6.8	2	4.7	7	4.5	11
Norway	6.3	6	5.4	2	5.3	4
Sweden	7.6	1	6.3	1	7.0	1
Switzerland	5.1	14	4.2	11	5.8	3
United Kingdom	5.2	13	3.9	14	4.5	11
Non-U.S. Average	5.8		4.5		4.6	

*Adjusted for 1985 U.S. K-12 enrollment rate

Source: Economic Policy Institute

ment than does Minnesota: In 1986, Mississippi spent 3.9% of its gross state product on K-12 education, compared to a 3.7% share for Minnesota.

In contrast, the Education Department notes that Minnesota's investment in K-12 education is larger than Mississippi's when measured by the more valid statistical indicator of state investment, expenditure per pupil: In that year, Minnesota spent \$4,180 per pupil against Mississippi's \$2,350 per pupil.

But the higher cost of living in Minnesota inflates this apparent difference in expenditures to some extent. In any case, the difference in school spending has little to do with the substantial difference in academic performance between the two states (see Exhibit 5 and discussion on page 11).

Meaningless effort. The crux of the failure of EPI's argument lies in Rasell and Mishel's assertion that the share of national income allocated to education (or anything else) is "a

income. In fact, the data in Exhibit 3 incorporate the EPI data of Exhibit 2 and share the same flaws and distortions.

Ignoring productivity. An even more important flaw in EPI's purported "measure of effort" than its failure to account for differences in wealth and culture is that it ignores crucial differences in the **productivity** of expenditures made for the same purpose, which depends in turn on the technology and organization available to serve that purpose.

Thus, in the above agricultural example, India puts more "effort" into feeding itself

than does the United States in important part because India's agricultural production and distribution technology is far less efficient than America's technology--food in India is more expensive than food in the United States.

This last failure is the one that particularly makes the popular acceptance of EPI's erroneous education "spending lag" not merely distracting but--to the extent it influences education policy--downright subversive to the nation's hopes for economic development and competitive leadership.

The central truths obscured by EPI's statistical smokescreen are that (1) better academic results do not require spending more on education, and (2) spending more on education is at least as likely to cause economic decline as to reverse it.

Even among U.S. states, it is evident that gross spending on education does not predict academic achievement. South Dakota, for instance, ranks near the bottom (43rd) among states on spending per student, and dead last in average teacher salary. Yet the state's student test scores rank in the top five.⁵

It is true that, in international comparisons of standardized tests, U.S. students score lower than those in several of the "industrial" countries that Rasell and Mishel list that--by EPI's calculation--seem to spend more on K-12 education. But Rasell and Mishel actually selected countries for their list that supported their case for more education spending and left out countries that would disprove their argument.

Notably, EPI excluded from its table newly industrialized or industrializing countries such as Korea or Spain that spend less on educa-

Exhibit 3
EPI COMPARISON OF K-12
EXPENDITURES PER STUDENT
AS % OF PER CAPITA INCOME (1985)

		rank
United States	20.8%	14
Australia	19.5	15
Austria	29.7	2
Belgium	25.0	5
Canada	24.0	8
Denmark	24.5	6
France (84)	23.2	10
F.R. Germany	23.5	9
Ireland (84)	19.4	16
Italy (83)	21.1	13
Japan	24.1	7
Netherlands (84)	23.0	11
Norway	27.1	4
Sweden	35.3	1
Switzerland	29.6	3
United Kingdom (84)	22.8	12
Non-U.S. Average	23.5	

Source: Economic Policy Institute

in a smaller, more homogeneous nation.”⁶ If centralized, national systems were inherently more efficient than decentralized ones, as Rasell assumes, Eastern Europe should be an economic powerhouse instead of the basket case it is.

Rasell’s faith in the efficiency of centralization runs counter to current management theory and vast practical experience, in education as well as in the economy as a whole. Peter Drucker has argued that the lack of a national education ministry, and the decentralized, open, and flexible structure of U.S. education are among America’s greatest competitive advantages in the world economy.⁷

There is somewhat more to be said for Rasell’s argument that because the United States has more immigrants and more children in poverty than some other nations, “we

[Sweden’s] ultra high taxes, slumping investment, lagging growth and eroding productivity have been undermining the Swedish economy for decades. . . . It was becoming clear nearly a year ago that the government was headed for disaster. Surging inflation and strikes caused panic in Stockholm, which earlier this month proposed a two-year ban on strikes, and a freeze on wages, prices, dividends, rents and local income taxes. Last Thursday the plan went up in flames and with it Ingvar Carlsson’s minority government. . . . The reality of today’s Sweden is the lingering myth of a cradle-to-grave Welfare Paradise. The myth is based on an enormous system of subsidies—from food consumption to having children and even reaching old age. Savings are nonexistent and investments are flowing abroad. That the gravy train is sputtering can be seen in the degradation of services, particularly medical care, and increasing poverty.
-- “Welfare Paradise Lost,” *The Wall Street Journal*, February 22, 1990

have to invest more money in compensatory education...just to achieve the same level of performance.”⁸ The primary flaw in this argument--typical of the entire EPI paper--is that it confuses spending with results.

If some children in America need special educational services to compensate for disadvantages and to avail those children an equal opportunity for learning and growth, those services certainly should be provided. But Rasell presents no evidence, and there is no reason to casually assume, that compensatory educational services necessarily must be more costly than other educational services.

And to the extent that compensatory education may prove more expensive than average, services to the disadvantaged will be more effectively financed by reallocating resources from wasteful or less urgent educational uses than by simply increasing expenditures. In fact, no studies have shown any sustained benefit from the billions of dollars spent on the major national program for compensatory education, Chapter I of the federal Elementary and Secondary Education Act.⁹ And research recently reported by Stanley Pogrow of the University of Arizona concluded that money spent on Chapter I programs actually has the effect of inhibiting at-risk children’s ability to learn.¹⁰

There is no reason to assume--and substantial evidence to doubt--that spending more on education will help the disadvantaged. Actually, many of America’s poorest, most disadvantaged, and least academically proficient students reside in school districts whose spending per pupil is well above average. The District of Columbia, for example, spent over \$5,700 on each public school student in 1987 --much more than the national average of

postsecondary education and training simply to be employable.

This is a radical change from two or even one generation ago when a large number of intellectually unskilled but well-paid craft jobs in manufacturing, mining, and agriculture gave many school dropouts a good opportunity to labor their way into the middle class. Now, the Hudson Institute study finds that the fastest-disappearing jobs are those that require the lowest entry skills and the least continuing education. Even if schools were performing as well as they used to, the economic value of their traditional performance would be declining because of the shifting demands of a knowledge-age economy.

More spending means less productivity. An exhaustive review of two decades of educational research by Eric Hanushek of the

University of Rochester yielded the “startlingly consistent” result that there is no systematic relationship between variations in school expenditures and variations in school performance. Moreover, as Exhibit 5 shows, Hanushek found little or no evidence of improved student learning resulting from the ways increased K-12 funding typically has been spent in pursuit of “excellence”: smaller classes, higher teacher pay, more teacher training, bigger and better school buildings, and so forth.¹⁵

A study by Deborah Inman at New York University shows that while total state spending on K-12 education grew by about a third from 1983 to 1987, less than 2% of that sum was allocated to any kind of “reform.”¹⁶ Her study further indicated that the majority of these limited “reform” investments—which still totalled some \$6 billion—went to the

Exhibit 5
IMPACT OF EDUCATION INPUTS ON STUDENT PERFORMANCE

	Number of Studies	% No Impact	% Positive Impact	% Negative Impact
Expenditures/pupil	65	75.4	20.0	4.6
Teacher/pupil ratio	152	82.2	9.2	8.6
Teacher education	113	88.5	7.0	4.5
Teacher experience	140	64.4	28.5	7.1
Teacher salary	69	78.3	15.9	5.8
Administrative inputs	61	86.9	11.5	1.6
Facilities	74	83.8	9.5	6.7

Source: Hanushek (1989); adapted from *The Washington Times*, 6 April 1989.

- Education is tied as America's most labor-intensive industry, with labor costs representing 93% of output, compared with 54% for the average business and only 42% in the high-tech telecommunications industry.
- Education has the lowest level of capital investment (i.e., buying technology) of any major economic sector, providing only about \$1,000 of capital for each worker, compared with an average of \$50,000 of capital invested per job in the U.S. economy and investments of several hundred thousand dollars per employee in some high-technology businesses.
- The investment in research and development that is the wellspring of growth and competitiveness in every other business is almost nonexistent in the education sector. The average U.S. business spends 2% of its revenues on R&D; in many high-tech businesses investments of 7% to 20% or more of revenues in R&D are common. Yet the education industry invests less than 0.1% of its revenues in research and innovation. R&D investment per employee--a key factor of competitive advantage--is less than \$50 a year in education, compared with \$5,000 in a typical business and \$20,000 to \$40,000 or more in a high-tech business such as computer software.

But it's the productivity of students, not paid staff, that is really essential in the education business. When "worker" is equated with student rather than employee, education's already meager investment in research and technology charted above is at least ten times less: not even five dollars a year for research and only about a hundred dollars of capital investment per worker.¹⁸

To gauge the extent to which education has shortchanged innovation, consider that the Gillette Company's new, high-tech razor blade cost some \$200 million in R&D investment over 13 years to create. Gillette, a company whose annual revenues of more than \$3.5 billion are less than the education budgets of three-fourths of the U.S. states, thus spent more to invent a better shave than all the states combined spent during the same period to develop a better technology for teaching and learning than the 1,000-year-old "Yak in the Box" (the lecturing classroom professor).

As a result of the prolonged, near-perfect resistance of academia to the research and innovation that fuel the advance of productivity, a yawning gap is growing between the technology of the school and the technology of the "real" world. Had educational technology advanced at the same pace as computer technology over the last half century, the high school diploma that still takes a dozen years at an average cost of \$60,000 to complete could be "produced" in less than five minutes for less than a nickel. While human factors still limit such instant learning, the fact remains that schools and colleges are almost totally isolated from the information revolution that is so explosively transforming every other venue of human affairs.

The fault for this festering obsolescence lies not in any shortage of tax and tuition revenue, but is rooted entirely in the priorities of an academic establishment that has habitually replaced innovation with supplication.

If there is good news in this dismal situation, it is that--quite to the contrary of EPI's message--the United States does not "lag" behind other nations in closing education's

disastrous technology gap. While specific data on national investments in educational R&D are scarce, the available information, shown in Exhibit 7, suggests that academia is as resistant to innovation and productivity in other nations as in the United States. So America is not yet losing the race to transform educational technology to match an information-age economy--but only because the other guys have not yet showed up.

THE SEGMENTATION FALLACY

Another critical flaw in EPI's analysis is its insistence on focusing exclusively on U.S. expenditures on the K-12 segment of education, to the exclusion of higher education and other "lifelong" learning investments. In fairness, EPI is not alone in this crucial error, which commonly subverts American thinking about education and training policy.

Because even Rasell and Mishel concede that total U.S. education spending is unexcelled, the whole presentation of EPI's analysis rests on their assertion that "the U.S. crisis is not in higher education but in K-12." But this claim is simply false.

The strengths and weaknesses of the American learning enterprise cannot meaningfully be isolated in any one segment of a diverse and highly integrated system that is unique in the world. Arbitrary segments such as pre-school, elementary, secondary, higher, vocational, adult, formal, and nonformal education or training bear only limited resemblance to the ecological reality of this complex enterprise. And such categories of the U.S. learning system are no more than partly comparable to their counterparts in other countries.

Exhibit 7
INVESTMENT IN EDUCATIONAL R&D
AS SHARE OF TOTAL NATIONAL EDUCATION SPENDING
(1986 - Local Currency)

Country*	Educational R&D Spending (x 000)	Total Educational Spending (x 000 000)	R&D/Education (percent)
F. R. Germany	174,280	86,326	0.202
Greece	78,340	('85) 142,315	0.055
Ireland	1,968	1,143	0.172
Italy	9,890,000	35,442,000	0.028
Netherlands	24,870	('85) 28,298	0.088
Portugal	3,800	181,029	0.002
United Kingdom	34,399	19,042	0.181

*These are the only EEC countries reporting "education" as a subset of R&D expenditures.

Sources: EUROSTAT, *Government Financing of Research and Development 1980-1987* (Luxembourg, 1989); OECD, *Education in OECD Countries 1986-87* (Paris, 1989); total educational spending for Italy from UNESCO, *Statistical Yearbook 1988*.

masters degrees, and 20% of all doctorate degrees awarded annually in the United States. If the cost of the "ed school" diploma mills were allocated to the nation's K-12 budget, EPI's putative K-12 spending "lag" would be wiped out.

On the other side of the ledger, the rapid growth of postsecondary options in American high schools means that more U.S. secondary education spending is actually going for higher education. Ten states now offer public school students the option of attending college or university classes. For instance, in Minnesota and Colorado, 11th and 12th grade students now are allowed to take courses in colleges, with public "K-12" monies being used to pay college tuition. In Maine, high school students taking postsecondary courses get credits that count toward **both** high school and college graduation.²³

Similarly, thousands of American high school students now take advanced placement or "AP" examinations, administered by the College Board, which allow them to earn college credit for courses taken in high school. In 1987, eight states offered AP courses and examinations to 10% or more of their high school juniors and seniors. Nationwide, the number of high school students taking AP courses is growing rapidly: from 2.9% in 1981 to 6.5% in 1987.

The real shortchanging. If any segment of the U.S. learning enterprise is being "short-changed" it is neither K-12 nor higher education, but adult education and training. The United States has more adult functional illiterates than kids in high school. About as many American adults need further basic education as there are children in U.S. public schools. Yet, for every dollar spent on K-12

education for children in the United States, less than a penny is spent on basic education programs for adults.

Studies by Anthony Carnevale of the American Society for Training and Development (ASTD) show that the United States is underinvesting in the continuous training and retraining needed to have a competitive workforce.²⁴ Carnevale's research reveals that most employer-provided training goes to the employees who are already most educated, while public training funds aid no more than the most disadvantaged 8% of the workforce --leaving the mass of workers in the middle with little support for upgrading their human capital. To help close this gap, a recent ASTD report recommended that U.S. employers expand their investment in employee education and training to at least 2% and preferably 4% of payroll, an increase of between \$13 billion and \$56 billion a year.²⁵

These facts only begin to suggest how distorted may be the conclusions derived from international comparisons of only limited segments of national learning enterprises. The EPI paper notes, for example, that international tests of educational achievement stop with 14-year-olds. Rather than recognizing the bias and limited utility of such tests--the human mind does not stop growing after puberty--Rasell and Mishel simply choose to ignore both the cost and the value of the generous U.S. investment in postsecondary education, guaranteeing that their paper will shortchange America.

The great strength of the American system is that it provides second and third and more chances for success to those who have failed in or been failed by school. It's true that the bottom third of the U.S. school popula-

situation-specific competencies in the workplace.²⁷

Uncertain returns. In the United States of a generation ago, virtually any investment in more education offered an attractive rate of return--the cost of education was more than paid back by the greater incomes commanded by college graduates and those with advanced degrees. But the return on investment in generic education has become increasingly dubious for all concerned.

In the 1970s, the difference in lifetime income between U.S. high school graduates and college graduates became so narrow that some economists estimated that the return on investment in formal higher education might even be negative.²⁸ In the late 1980s, the gap between the incomes and employment rates of college and high school graduates widened dramatically, making higher education now appear to be not only an attractive but perhaps essential investment.

These gross measures of the value of postsecondary education in the American economy may be misleading, however. The growing division between the economic status of college and high school graduates has occurred not because the demand for more-educated workers has increased but because the employment opportunities traditionally available to individuals with no more than a high school education--mainly in manufacturing or agriculture--are rapidly vanishing.²⁹

Overschooling. The apparent demand for "more educated" workers actually is a kind of inflation phenomenon. While the basic skill requirements for entry-level work have been generally increased by technological and organizational change, the U.S. economy's

demand for highly-schooled "professional" workers is largely oversupplied. Because jobs requesting³⁰ no more than high school credentials are disappearing much faster than jobs asking for college degrees, it appears that the educational requirements of employment are increasing. But the numbers of jobs whose content genuinely requires college or postgraduate training are neither large enough nor growing rapidly enough to make up for the number of low-skilled jobs being structurally displaced.

An exhaustive review of two decades of educational research yielded the "startlingly consistent" result that there is no systematic relationship between variations in school expenditures and variations in school performance.

Workforce 2000 and other studies find that the most acute human capital need in the modern economy is for skilled technicians. As the latest analysis of international competition by Michael Porter of the Harvard Business School concludes: "[America particularly needs] a new national effort to upgrade technical and vocational schools.... What is required for competitive advantage is specialized skills tailored to particular industries."³¹

On the other hand, America has a surplus of over-schooled "professionals." Few would question that the United States has too many lawyers. During the 1980s, half the country's physicians in private practice didn't have enough work to fill their calendars; meanwhile, a glut of empty beds has been driving many hospitals into bankruptcy. The surplus of dentists has led some notable universities

Whatever it has done for test scores, academic education following the European, "liberal arts" tradition also has served to reinforce feudal class structures and ethnic/national division in Europe and the Orient. In America, the same academic conceit has bred what the late Herman Kahn labelled a "New Class" of credentialed experts infected with "educated incapacity." The cultural bias of "liberal" academia against manual labor, commerce, and even capitalism has contributed to Europe's festering unemployment and to America's flagging industrial competitiveness.

And if academia has been a mixed blessing to human development in Europe and America, in the third world the disdain for work and productivity bred into the European-style schools inherited from colonial masters has been an economic and social catastrophe. In countries such as Zimbabwe and Sri Lanka, the overdose of academic education has bred a socially disruptive class of overeducated unemployed. Charting the same phenomenon in Indonesia, Nathan Keyfitz concluded: "To sell education to the public as a means to upward mobility ultimately risks disillusionment."³⁴

The disillusionment in liberal academia as an engine of development now has come

home to Europe. While some Americans view Europe's schools as objects of envy, European industrialists and government leaders increasingly view their traditional education systems as a barrier to the successful integration of what they call the European Economic "Space"--comprised of the Continent's suddenly expanding universe of democratic, market economies. Europe's leaders

Then the island blew up. . . . A numbing cycle of violent reprisals, carried out mainly by educated, unemployed and well-armed youths, began to escalate. . . . "With liberalization, you gave these Sinhalese and Tamil students the impression that they could gain not only an education, but could achieve upward mobility. This turned out not to be true," said . . . a Harvard-trained attorney and Tamil activist. . . . The economy changed during the 1980s but the school system didn't. Sri Lanka's highly regarded British-style schools were designed to churn out qualified civil servants. . . . Classrooms emphasized literacy and the liberal arts, not science or vocational training, meaning that few graduates were prepared for the kinds of jobs available in a dynamic economy. . . . Said [the assistant director of] Sri Lanka's leading private think tank: "The problem is people coming out of the universities, saying 'I'm ready,' and the country says, 'For what?'"
 --"Sri Lanka's 'Model' Economy in Ruins,"
The Washington Post, October 10, 1989

Ironically, the crisis of unemployment is an offshoot of one of Zimbabwe's sterling achievements in its first decade. . . . Since [the Mugabe government came to power in 1980], the number of primary and secondary schools has blossomed tenfold. The national literacy rate has climbed from 45 percent to nearly 80 percent. . . . Between 1957 and 1977 only 39,000 blacks were permitted three or more years of secondary education. Since independence, more than 1 million have completed secondary schools—but only a tenth of them have jobs. "We placed a high premium on education because for 90 years the black population was deprived . . .," said . . . Zimbabwe's minister of primary and secondary education. "Now we have created a situation that is potentially dangerous—so many bright young people and so few jobs." . . . "In fact, it's something of a time bomb," said one U.S. official based here. "Education is fostering so many hopes, and I think a lot of young people are angry."
 --"In Zimbabwe, Education Yields Few Rewards," *The Washington Post*, January 28, 1990.

today is not a schooling lag but a *perestroika* gap that is widening with breathtaking speed.

While "restructuring" in America remains little more than a hollow platitude, in Europe *perestroika* has unleashed winds of change that now blow, both east and west, with gale force. In the Orient, and Latin America, and even now in Africa, the passion for democracy is bursting the bondage of Marxist and authoritarian regimes. China's doddering Communist warlords struggle vainly against time and tide to suppress the flood of liberty that sprang forth in Tiananmen Square one year ago. Japan's worn-out political establishment remains untoppled, but continues to teeter as that fast-aging society reassesses all its basic assumptions and plots its next great leap. India's establishment has fallen, unleashing new upheaval in the world's greatest democracy.

From Czechoslovakia to Chile, from South Africa to Nicaragua, from Mongolia to Ethiopia, the status quo is on the rout, the unthinkable has become the commonplace, and the fabric of whole societies is being rewoven. As every major social structure in these lands is reappraised and redesigned or replaced, the most conservative social glue--education--inevitably will be reinvented as well.

The irony of America's predicament is dire: To keep pace with the breakneck dynamism of the rest of the world, the United States urgently needs to reconstruct its entire national learning enterprise. Yet the relative moderation of structural upheaval in other American institutions breeds a complacency that makes it only more difficult to truly "restructure" an academic establishment that stands as a daunting barrier to national prog-

ress and global competitiveness. The acute threat to America now is that it may not experience the goad of another "Pearl Harbor" crisis, but only the steady, incremental degeneration of social senility. Whatever may be the solution to this dilemma, further feeding the academic lobby's insatiable fiscal appetite would only be a giant leap backward.

Within Europe the leadership eventually passed to Britain, which emerged in the middle of the 18th century as a new kind of state, whose wealth and power were based on manufacturing industry. . . . To many it must have seemed by [1830] that Britain's commanding position was unassailable. . . . Despite [the] brilliant success [shown at London's Great Exposition in 1851], the reality was that Britain was already in decline. . . . The consensus of opinion was that the English educational system was totally unsuited for the needs of the day. . . . The old prestigious universities of Oxford and Cambridge virtually ignored science, as did the public schools from which most of their students came. . . . The plain fact was that the ruling classes saw no need for technically trained men. . . . The leading countries of Europe set up technical education systems. . . . In the United States, where labour shortage encouraged mechanization and a flood of European immigrants brought new ideas about education with them, land grant colleges were endowed from 1862. . . . Britain reacted too slowly and inadequately: the lead which had seemed unassailable at mid-century had been irretrievably lost by its end. . . . At the turn of the century, . . . Britain was in decline, Germany was in the ascendant, and . . . America was gathering the strength that was to make her the greatest power of all after the Second World War.
--Trevor I. Williams, *The History of Invention* (London: Macdonald & Co., 1987)

rate assessments of individual abilities, including workforce-relevant knowledge and skill, not just academic achievement.

An initial step in this direction, suggested by Al Shanker, president of the American Federation of Teachers, is to abolish existing standardized tests. Beyond that, Shanker rightly urges development of a new, more sophisticated testing technology that will provide meaningful accounting, and hence incentive, for actual student learning, not just class attendance. A new U.S. Labor Secretary's Commission on Achieving Necessary Skills (SCANS) is about to spend the next year working to develop detailed guidelines that should provide a useful platform for pursuing this goal. Clearly, more precise and efficient testing processes will be essential to creating a more productive national learning enterprise.

- **Assure every student in America access to a "distance learning" network by 2001.**

We have a set of communication technologies in place--telephone, CATV, satellites, fax, etc.--that can provide some kind of learning-at-a-distance to nearly everyone now. The strategic version of this modest-sounding goal really is to develop a national, integrated, "telematic" learning environment that can allow anyone to learn anything, anywhere, anytime. Fully realizing the potential of distance learning will require a broadband network, ultimately digital, which will give everyone in America multi-media access to any form of instruction or knowledge available to anyone else. One telephone company scientist has labelled this ultimate technology "tele-sophy." Its full achievement will require completion of the national, digital, fiber-optic communications network that, besides being

the true "school of the future," will be the essential "spinal cord" of the information-age economy.³⁸

Clearly this kind of high-technology, market-oriented strategy for restructuring the American learning enterprise will require major investments. But these will be true **investments**--ultimately paying off in more, better, faster, and cheaper learning--rather than simply bigger **expenditures** on more of the same old unproductive schooling. And financing these investments does not require increased total spending on education or training. Rather, restructuring can and should be paid for by reallocating some of the vast resources now spent in the education industry from inefficient activities to more productive applications, while taking full advantage of the investments in new technologies that are transforming every other sector of the nation's economy.

Conclusion. While conceding that spending more money on K-12 schooling is "not the only answer" to America's education problems, EPI's Rasell and Mishel still conclude that "to begin a process of education reform by denying the need to increase spending ...places a severely limiting constraint on any plans for education." The real strategic situation is precisely the opposite:

Past education reform processes in the United States continually began by assuming a need to increase spending and have failed to produce any consistent result other than greater cost and lower productivity. A long history of futile reform movements³⁹ proves that perpetuating this error is what would impose a lethal constraint on any plan or hope for education improvement in the United States.

- 18 The sources of these data and further discussion of the "technology gap" can be found in an earlier Hudson Institute Briefing Paper (No. 111, 8 November 1989), "Closing Education's Technology Gap." Also see Lewis J. Perelman, "Schools: America's \$500-billion Flop," *The Washington Post*, 3 December 1989.
- 19 U.S. Bureau of the Census, *Statistical Abstract of the United States: 1988* (Washington: 1987); p. 142.
- 20 "C Stands for Company, Turned Into Classroom," *The Wall Street Journal*, 1 March 1990.
- 21 From Julian L. Simon, *The Economic Consequences of Immigration* (New York: Basil Blackwell, 1989).
- 22 Even when adults needing basic education are served by public schools, they are often charged tuition and/or their costs are charged against programs or categories different from the normal K-12 budget.
- 23 Note that this is just one of many no-cost or low-cost ways of increasing the productivity of education expenditures.
- 24 Anthony P. Carnevale and Harold Goldstein, *Employee Training: Its Changing Role and An Analysis of New Data* (Washington: ASTD Press, 1983).
- 25 Anthony P. Carnevale and Janet W. Johnston, *Training America: Strategies for the Nation* (Alexandria, VA: American Society for Training and Development, 1989).
- 26 Anthony P. Carnevale, Leila J. Gainer, and Ann S. Meltzer, *Workplace Basics: The Skills Employers Want* (Washington: U.S. Dept. of Labor, 1989).
- 27 Lauren Resnick, *Education and Learning to Think* (Washington: National Academy Press, 1987). Also see Sue E. Berryman, "Breaking Out of the Circle: Rethinking Our Assumptions about Education and the Economy," Occasional Paper No. 2. (New York: National Center for Education and Employment, Columbia University, July 1987).
- 28 For instance, see Richard B. Freeman, *The Market for College-Trained Manpower: A Study in the Economics of Career Choice* (Cambridge, MA: Harvard University Press, 1971).
- 29 Cf. Johnston and Packer (1987).
- 30 Unfortunately, reports and studies of job "requirements" often do not distinguish between the educational qualifications employers ask for in their job requisitions or ads and the specific knowledge and skills needed to perform the work. In practice, employers commonly ask for more academic credentials than are needed, in an attempt to reduce the number of under-qualified applicants. But the workforce shortages of the 1990s and beyond--combined with the hollowing out of diplomas--are making this practice ever less feasible. A graphic example of the problem: The U.S. Navy's training director was quoted in a recent news report as saying, "I have college graduates in [nuclear submarine] school who can't read."
- 31 Michael Porter, "Why Nations Triumph," *Fortune*, 12 March 1990.
- 32 "Where the Schools Aren't Doing Their Homework," *Business Week*, 28 November 1988.
- 33 Richard R. Verdugo and Naomi Turner Verdugo, "The Impact of Surplus Schooling on Earnings," *The Journal of Human Resources*, Fall 1989.
- 34 Nathan Keyfitz, "Putting Trained Labour Power to Work: The Dilemma of Education and Employment," *Bulletin of Indonesian Economic Studies*, December 1989.
- 35 The French term "telematique" usefully represents the fusion of the technologies of telecommunication and computing.
- 36 James Fallows, *More Like Us: An American Plan for American Recovery* (New York: Houghton-Mifflin, 1989).
- 37 A detailed plan for how to implement this proposal is contained in Hudson Institute's Briefing Paper No. 111, "Closing Education's Technology Gap."
- 38 See G.A. Keyworth II and Bruce Abell, *Competitiveness & Telecommunications* (Indianapolis: Hudson Institute, 1990).
- 39 See, for instance, Carl F. Kaestle, "The Public Schools and the Public Mood," *American Heritage*, February 1990. For a more extensive review of post-War education reform, see Diane Ravitch, *The Troubled Crusade: American Education 1945-1980* (New York: Basic Books, 1983).

Tinkering with America

As the federal budget debate gets under way, there's one irony I can't ignore. It would be amusing—if it didn't much matter. But it matters a lot. At stake is our future, as a nation and as a people.

Here we stand at the dawn of the 1990s—in a world of profound, unprecedented, and largely peaceful change. South Africa is being forced to move toward dismantling its hated apartheid system, without war. In the Soviet Union and Eastern Europe, communism is being transformed and replaced, without war. And Soviet military power—the justification for the unprecedented military buildup of the 1980s—is disintegrating before our eyes.

Yet the Administration proposes increasing the Pentagon budget by \$5 billion. Since this 2 percent increase is half what would be necessary to keep pace with inflation, we're told it's a major *decrease* in military spending.

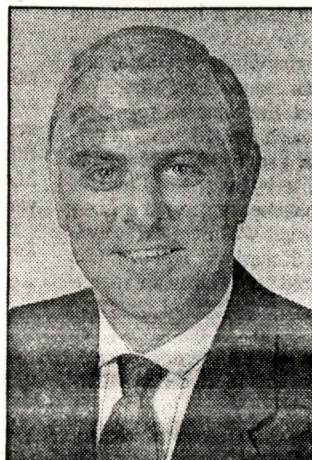
The White House also proposes increasing federal education spending by 2 percent. This \$500 million increase wouldn't begin to make up for the 33 percent cut in federal support for elementary and secondary schools in the 1980s. Still, we're told it represents an important *increase* in federal education spending.

Here we are, seven years after the *Nation At Risk* report warned that educational mediocrity threatens America's future. We've made only marginal progress. Our schools remain in need of basic, systemic change.

The White House budget, through its 2 percent tinkering, trivializes both the geopolitical changes transforming our globe—and the economic and social challenges confronting our nation.

It's time to reexamine our defi-

A Budget That Shortchanges Our Future



KEITH GEIGER

President, NEA

nition of national security. As we enter this new decade, it is clear that America's future depends more on our economic and social vitality than on amassing ever larger stockpiles of nuclear arms. We must commit significant resources to our nation's crumbling infrastructure, decaying cities, endangered environment, burgeoning deficit—and, above all, to educating tomorrow's adults. Universally excellent schools are the foundation of America's future.

President Bush is fond of say-

ing that improving education is not a matter of money. He and others in the Administration frequently point out that America spends more on its schools than any other industrialized nation.

Well, we do—and we don't. When all levels of schooling—preschool through postgraduate—are included, the United States ranks near the top. But when you exclude higher education, we're close to the bottom.

These are the findings of *Shortchanging Education*, a new study by the Economic Policy Institute. The EPI economists analyzed education spending in 16 industrial nations. They found that when all spending—public and private, preschool through university—is included, the United States is in a three-way tie for second place. Sweden spends relatively more; Canada and the Netherlands spend equivalent amounts.

But when postsecondary schooling is excluded, America ranks 12th or 14th—depending on the precise measure of spending used. Both Japan and West Germany (and at least nine other nations) spend relatively more on kindergarten through secondary school than does America. And when the analysis is limited to public spending, preschool through university, we're in 14th place.

The EPI economists conclude: "Spending more money is not, of course, the only answer to the difficult problem of revitalizing primary and secondary education in the U.S. But ... as in every other service, we may 'get what we pay for.'"

The Administration doesn't dispute the EPI findings. It simply attempts to ridicule the report. That's not the kind of objectivity America needs as we move forward with serious school reform.



UNITED STATES DEPARTMENT OF EDUCATION

THE SECRETARY

FEB 1 1990

Honorable Thomas S. Foley
Speaker of the House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

In your remarks following the President's State of the Union Message last night, you referred to an overall 2.1 percent increase in his proposed budget for the Department of Education. I feel it is important to set the record straight with several key points:

- o The President's budget for the Department of Education actually reflects an overall increase of 6.2 percent for discretionary programs--those that will assist in meeting the national education goals announced last night by the President. The 2.1 percent figure is misleading because it is a net figure and is lower than it would otherwise be since it includes a substantial reduction in the costs of Guaranteed Student Loans due to a projected decline in interest rates. This is not a program reduction.
- o Furthermore, the Head Start budget, which directly addresses the first goal of preparing every child for entry into school, is increased by 36 percent. Combined with our 6.2 percent increase, the \$500 million in Head Start yields an 8.3 percent increase in combined education discretionary activities of ED and HHS--twice the rate of inflation.
- o These goals are goals for the Nation--not just the Federal Government. Their achievement will depend on efforts by States and localities--who support 94 percent of our total education effort, while the Federal share is only 6 percent.
- o This year, as a Nation, we will spend \$353 billion a year on education--a 113 percent increase in current dollars since 1980, and a 37 percent increase even after adjusting for inflation. These spending increases have not produced corresponding increases in educational achievement.

I repeat what I have said many times--we need to restructure our educational system. We need greater accountability, school-based management, and other reforms in place before we can expect results from dramatic new levels of education spending. Action on the pending education legislation submitted by the President in the last session will certainly move us closer to the reform goals that we all share.

I look forward to working with you and the other members of Congress as we strive together to make America's education system the finest in the world.

Sincerely,

Lauro F. Cavazos
Lauro F. Cavazos

Briefing Paper

1730 Rhode Island Ave., NW • #812 • Washington, DC 20036 • 202/775-8810

SHORTCHANGING EDUCATION HOW U.S. SPENDING ON GRADES K-12 LAGS BEHIND OTHER INDUSTRIAL NATIONS

By M. Edith Rasell and Lawrence Mishel

Introduction and Summary

Over the past decade, Americans have become increasingly concerned about the educational and academic achievements of U.S. students, particularly at the primary and secondary levels. Numerous high-level commissions, composed of leaders from government, education, and business, have examined the schools, and most recently, state governors and Administration officials, including President Bush, met at the "Education Summit" to discuss needed reforms. Improving the education of U.S. students has risen to the top of the public agenda.

President Bush, who has declared his desire to be known as the "education president," has, however, attempted to limit the discussion of educational reform initiatives to those which do not involve spending additional public funds. At the "Education Summit" in September, President Bush declared that the U.S. "lavishes unsurpassed resources on [our children's] schooling." Therefore, "our focus must no longer be on resources. It must be on results."¹ At this same conference, Secretary of Education Lauro Cavazos stated that the problem with U.S. education "is not ... an issue of dollars... [F]unding is truly not an issue."²

The President and Administration officials have justified this anti-spending stance by asserting that the U.S. education system is already well-funded in comparison with other industrialized nations. Two measures of spending have been used by Administration officials and others to compare U.S. expenditures with those of other countries. One measure is spending per pupil. According to Secretary of Education Cavazos, "we are already spending more money per student than our major foreign competitors, Japan and Germany."³ President Bush's Chairman of the Council of Economic Advisers, Michael J. Boskin, agrees: "[w]e spend more, per pupil, than most of the other major industrialized economies."⁴ In *The New York Times*, Chester E. Finn, Jr., former Assistant Secretary of Education in the Reagan Administration and now director of the Educational Excellence Network of Vanderbilt University, wrote: "[w]e already spend far more per pupil than any other nation."⁵

The second measure of spending which is used to make international comparisons is the share of national income devoted to education. In an appearance on the NBC "Today Show" just before the September 1989 "Education Summit," President Bush's Chief of Staff John Sununu declared: "[w]e spend twice as much [on education] as the Japanese and almost 40 percent more than all of the other major industrialized countries of the world."⁶ The Council of Economic Advisors chairman Michael Boskin stated, "we spend a very large amount of our national income on education."⁷

The Administration's proposition that U.S. education is well-funded and therefore poor student performance cannot be a matter of insufficient monies is a key element in the national debate over education. It has provided policymakers at federal, state, and local levels a convenient rationale for not devoting more resources to education in a time of budgetary stress.

This paper is an examination of the statistical under-pinnings of the Administration's claims. It concludes that the assertions about funding are misleading and therefore are invalid guides to education policy. Specifically, our examination of education expenditures in 16 industrialized countries, adjusted for differences in national income, shows:

*** U.S. public and private spending on pre-primary, primary and secondary education, the levels of schooling which have been the focus of most concern, is lower than in most other countries. The U.S. ties for twelfth place among 16 industrialized nations, spending less than all but three countries.

*** When expenditures for K-12 are further adjusted to reflect differences in enrollment rates, the U.S. falls to fourteenth place, spending less than all the other countries but two.

*** When U.S. *public* spending alone is compared to *public* spending abroad, we rank fourteenth in spending for *all* levels of schooling, fourteenth in spending on K-12, and thirteenth in K-12 spending adjusted for enrollments.

*** If the U.S. were to increase spending for primary and secondary school up to the *average* level found in the other 15 countries, we would need to raise spending by over \$20 billion annually.

*** Because the U.S. spends comparatively more than other countries on higher education, when expenditures on all levels of education -- pre-primary, primary, secondary and post-secondary -- are calculated, we are in a three-way tie for second place among the countries studied.

This paper is focused on education spending. It is not a prescription for improving the U.S. education system. We recognize that money does

not guarantee excellence and we suspect that other changes -- in curriculum, in the status of teachers, and in expectations about students, to name just a few, will also be fundamental to any improvement in education quality and student achievement. But to begin a process of education reform by denying the need to increase spending, especially when U.S. schools are under-funded compared to those in other industrialized countries, places a severely limiting constraint on any plans for educational improvement.

Comparing Educational Effort

This paper compares education spending in 16 industrialized countries: most of western Europe, Canada, Japan and the U.S.⁸ Our data source is the United Nations Educational, Scientific and Cultural Organization (UNESCO)⁹, virtually the only commonly accepted source for such comparisons and the same source used by Administration officials. U.S. 1985 expenditure data come from the *Digest of Education Statistics*¹⁰ (see Appendix A for details).

International Comparisons: Education Share of National Income

We will begin our study by comparing education expenditures expressed as a percentage of national income (Gross Domestic Product). This is a common method used for international comparisons which allows us to avoid the distortions caused by fluctuating exchange rates. Also, education expenditures expressed as a percentage of national income provide a measure of the national effort which each country directs toward education.

Table 1 shows education expenditures as a percentage of national income for 16 countries in 1985, the last year for which such data are available (tables appear beginning on page 11). A first but, as we will show later, misleading glance shows that U.S. spending on all levels of schooling, including pre-school, primary, secondary and higher education, in 1985 amounted to 6.8 percent of national income. This places the U.S. in a three-way tie for second place with one of the highest expenditure levels among the 16 countries studied. By this measure it appears that only Sweden spends a larger share of national income on education than does the U.S., and Canada and the Netherlands spend equivalent amounts. This figure showing the U.S. to spend a relatively large percentage of national income on education is the basis for the claims made by the President and others that the U.S. spends "lavishly" on education and that we spend more than most other countries.

This comparatively high expenditure on education is due, in large part, to the substantial sums the U.S. spends on *higher* education. A relatively larger number of U.S. students are enrolled in post-secondary

education than in most other countries. In 1985, 5.1 percent of the entire U.S. population was enrolled in some form of higher education, a figure two to three times larger than the percentage enrollments of any other country, except Canada (see Table 2). Larger enrollments, in what is also a more expensive form of education, raise U.S. total education expenditures above levels in many other countries.

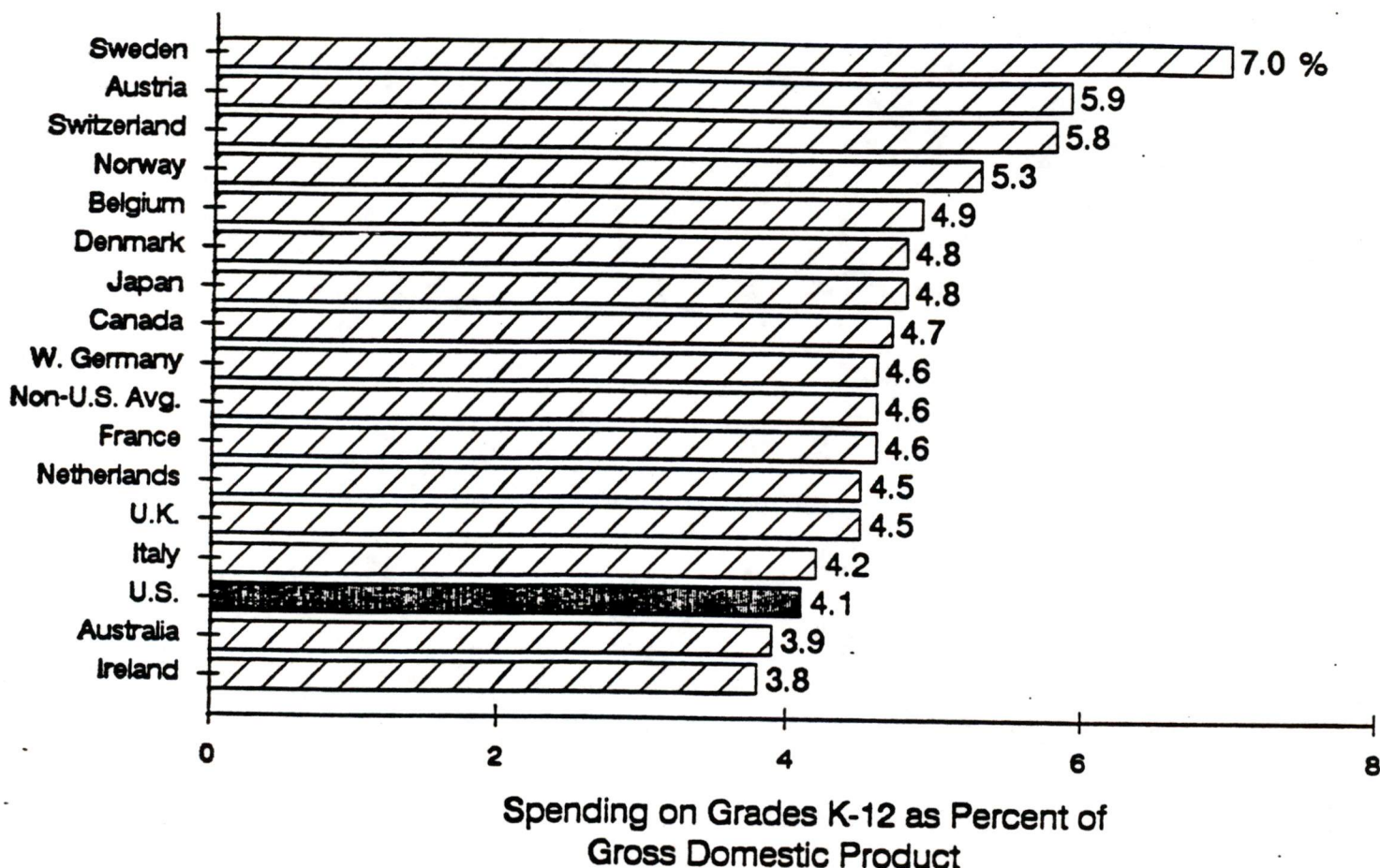
But the current crisis of American schools is not in higher education; it is in the primary and secondary school systems. A comparison of funding for *all* levels of education combined thus obscures the main focus of concern about American education. If spending on K-12 only is compared, as shown in column 2 of Table 1, in 1985 the U.S. tied for twelfth place, spending *less* than 11 of the other countries. Only three of the countries studied spent less than the U.S. on primary and secondary education.¹¹

But this picture of relative spending is still incomplete. Calculations of funding adequacy must also be related to the size of the school age population in each country. Among the countries studied, the U.S. enrolls a relatively large percentage of the population in pre-primary, primary and secondary school (see Table 2). For example, over 19 percent of the U.S. population is enrolled in K-12, but less than 15 percent of the West German population and only 14 percent of the population in Switzerland. In Table 1, column 3, the K-12 expenditure figures of column 2 are adjusted to take into account the relative size of each country's K-12 enrollment (see Appendix A for methodology). By this more accurate calculation, among the 16 countries studied, *the U.S. spends less on pre-primary, primary and secondary education than all but two other countries.* Only Australia and Ireland spend less than the U.S. for the critically important grades K-12 (see Figure 1).

We can also compare U.S. education spending as a share of national income with the *average* share of the other 15 countries as shown in the bottom row of Table 1. The U.S. spent 4.1 percent of its national income on K-12 education in 1985, while the average abroad was 4.6 percent. If the U.S. were to have reached this average in 1985, we would have needed to raise spending for pre-primary, primary, and secondary school by over 12 percent, or by \$20.6 billion annually. In 1988 dollars, the equivalent sum is \$23.5 billion.

All the international comparisons made thus far still give an incomplete picture of comparative education spending. Large U.S., Japanese and German trade imbalances skew the data and make the U.S. education expenditure appear larger than is actually the case. A more accurate picture of education spending, taking into account trade imbalances, would lower U.S. spending and raise Japanese and German spending beyond the levels shown in Table 1. Further details and data appear in Appendix B.

Figure 1
Comparison of Country Education Expenditures, 1985



Source: Table 1.

Operating and Capital Expenditures

The rankings described above are derived from comparisons of education spending which include both operating expenses and capital expenditures. In order to judge whether the low U.S. rankings might be a result of some unique allocation of spending between capital and operating accounts, Table 3 ranks the 16 nations according to operating expenditures only. The comparison shows the U.S. position, relative to the other countries, to be nearly unchanged.

Public Spending on Education Compared

We have seen that the U.S. spends a smaller share of its national resources on K-12 than do most other industrialized countries. But there is another dimension in which the characterization of the U.S. as a big spender on education is wrong -- *public expenditures*.

For most of the 16 countries studied, UNESCO assembles data on *public* expenditures for education because public revenues provide virtually all of the money spent on education. Even in countries where a sizable segment of the school population is enrolled in private school, most private schools' expenses are paid with public money. Thus, public expenditures approximate total education spending. The two exceptions are Japan and the U.S. where 20-25 percent of all education funding comes from private sources. For these two countries, UNESCO provides data on public *and* private education expenditures.

Education policy is primarily, although not exclusively, concerned with public schools. Moreover, public education spending reflects the conscious national commitment to educating the next generation. It is therefore useful to compare levels of public spending in the U.S. and Japan, with public spending in the other 14 countries.

As Table 4 shows, when public spending abroad for all levels of education is compared with public spending in the U.S., the U.S. no longer ties for second place, but falls to fourteenth. Japanese public spending on all levels of education was 5.1 percent of national income, compared with 5.0 percent for the U.S. In a comparison of public funding for K-12 only, the U.S. falls from the already low ranking of 12 (when both public and private money is included), to number 14. If we educated public and private K-12 students at the actual per pupil expenditure rate found in public schools, this would increase spending and raise the U.S. ranking from 14 to 13.¹²

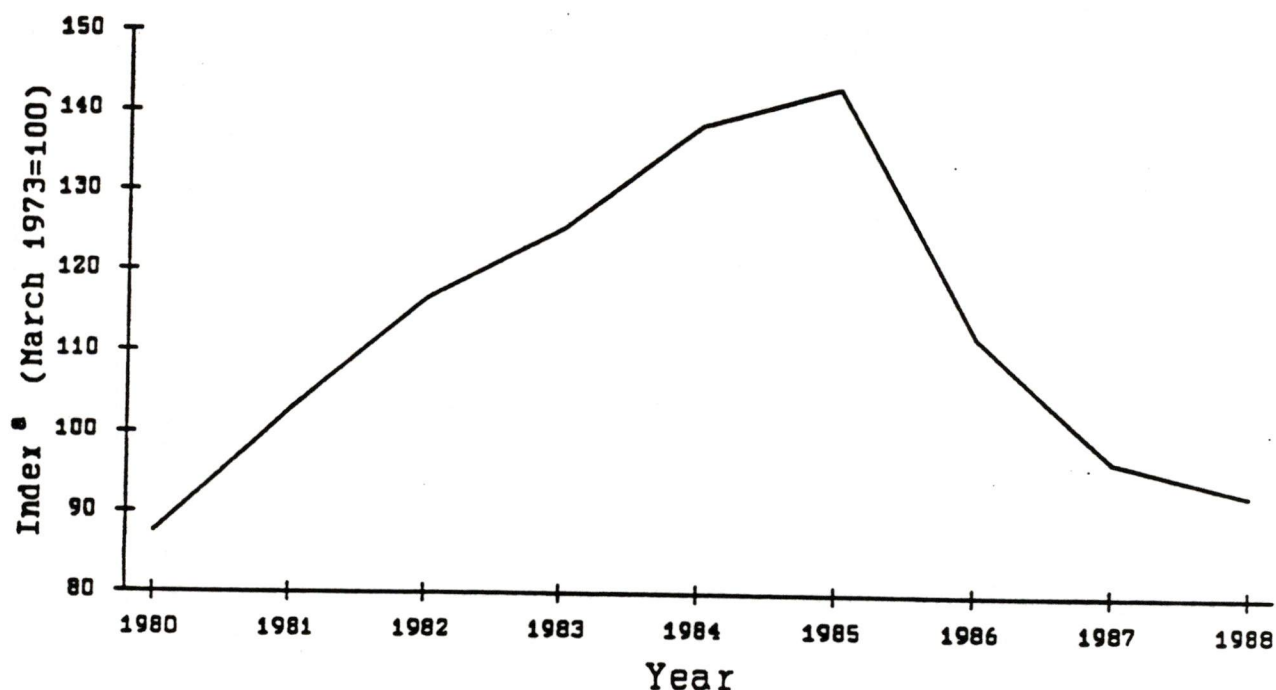
International Comparisons: Expenditures per Pupil

Thus far we have focused on education's share of national income in different countries. Education investment can also be analyzed by comparing expenditures per pupil. As we have seen, this is the measure Messrs. Cavazos, Boskin, and Finn have sometimes used to claim that the U.S. spends more on education than its economic competitors.

However, there are two potential sources of error in the use of per pupil expenditures to compare nations' spending on education. The first is the instability of exchange rates. Before cross-national comparisons can be made, expenditures measured in each country's national currency must be expressed in some common unit of measurement, e.g. dollars, yen, marks, etc. But whatever measure one chooses, it requires converting data collected in all other currencies to one currency.¹³ However, exchange rates fluctuate, sometimes markedly, and this has been particularly true in the 1980s. For instance, in 1985, if \$100,000 would have purchased a German school bus, by 1988, due to a decline in the value of the dollar, the same bus would have cost \$166,000. If exchange rates were used to convert German expenditures into dollars, the purchase of the bus by a German school district in 1985 would have been shown as an expenditure of

\$100,000, while the same purchase in 1988 would appear as an expenditure of \$166,000. The size of the German expenditure measured in German marks would be unchanged, but fluctuations in the exchange rate used to convert marks to dollars would markedly change the dollar value of the expenditure. In 1985, the year which we have been examining, the dollar was particularly overvalued (see Figure 2). The effect is to make the U.S. expenditures on education appear relatively greater than those in other countries.

Figure 2
Value of the Dollar, 1980-88



a. Nominal multilateral trade-weighted value of the U.S. dollar.

Source: Federal Reserve Board.

The problem of using exchange rates to make spending comparisons is illustrated in Table 5. Using 1985 exchange rates, as shown in column 1, the U.S. ranked fourth among the 16 countries studied. But if some other value of the dollar is used to make the conversion, e.g., the 1988 exchange rate, then the U.S. ranking changes to ninth (column 2).

The second problem in using per pupil expenditures is that they do not necessarily reflect the national effort devoted to education. The real issue underlying cross-national comparisons is not the numbers of dollars or pounds which each country spends, but the relative national effort

devoted to education. For example, a poorer country could spend a relatively large share of national income on education, i.e., could make a large national effort to educate its youth, but have a much lower spending per pupil than a richer country devoting a smaller share of its income to education. Before meaningful international comparisons can be made, education expenditure levels must be related to some measure of total national income.

Moreover, countries with high per capita incomes will also have higher wages reflecting a higher standard of living. For example, high living standards in the U.S. mean that, in general, workers are better paid than in other countries. Therefore, we would expect education expenditures per pupil to be higher in the U.S. than in other countries.

Per pupil expenditures can be used to make international comparisons if two conditions are met: exchange rates are avoided, and if some measure of national income is included in the calculation. Such a measure is shown in Table 6. Expenditures per student are expressed as a percentage of per capita income measured in each nation's own currency. We find that of the 16 countries studied, U.S. spending on pre-primary, primary, and secondary education is lower than in all but two other countries.¹⁴

The Historical Record

The study thus far has examined expenditures at a single point in time, 1985, and has found that the U.S. spent relatively little on pre-primary, primary, and secondary education compared with other industrialized countries. Another important issue is how U.S. funding for education has changed over time and how U.S. spending has changed relative to that of other countries. Tables 7 and 8 show U.S. funding of K-12 education in the postwar period. Expenditures are expressed as a percentage of national income.

As shown in Table 7, expenditures for pre-primary, primary and secondary education peaked in 1974, and have fallen steadily since (see column 1). Thus, spending for education has not kept pace with overall economic growth. Over this same period, however, enrollments also have fallen (see column 3). Primary and secondary school enrollment, as a percentage of the total population, was at its highest level in 1969, and has been gradually falling since that time. Adjusting expenditure figures for the changing enrollments, using the same method as in the international comparisons, shows that the decline in spending for education has been more than offset by shrinking enrollments (see Table 7, column 2). In the 1980s, the declining fraction of the population enrolled in school has meant adjusted expenditures have risen, despite the slowdown in actual funding for education.

Table 8 shows how the funding sources for public education have changed over time. Adjusted federal revenues, after rising until 1980, by 1985 had fallen by .08 percent of national income. In the same five year period, state and local revenues rose by .14 percent and .08 percent, respectively. (Since these are percentages of our two to three billion dollar national income, these small changes of less than one percent actually indicate billion dollar variations in education expenditures. In 1988, 0.1 percent of national income equaled \$4.46 billion.) Thus, the federal government's education funding responsibilities were shifted onto states and localities. The observed rise in adjusted total revenue is solely due to increased funding by states and localities. Among other consequences, this has increased the potential for greater disparities in funding between school districts across the nation.

Despite the increase in overall U.S. education funding of K-12 between 1980 and 1985, our position relative to other countries declined. Table 9 shows K-12 expenditures in 1980 and 1985 for the 16 countries we have been comparing, with both years' expenditures adjusted for the 1985 U.S. enrollment rate. In 1980 the U.S. ranked twelfth in adjusted spending on K-12, spending less than eleven other countries. But by 1985, the U.S. had fallen in rank to number fourteen.

U.S. education expenditures since 1985 are shown in Table 10.¹⁵ Spending for pre-primary, primary, and secondary education, expressed as a percentage of national income and adjusted for 1985 enrollments, rose from 3.88 percent in 1980, to 4.08 percent in 1985, reached 4.21 percent in 1987, and has been relatively constant between 1987 and 1989. Because comparable international data are not available, we cannot determine how this post-1985 U.S. trend affects its relative ranking with the other countries.

Conclusion

We have seen that when public plus private spending on all levels of education is compared with spending in other industrialized countries, the U.S. is in a three-way tie for second place among the countries studied. However, when spending for primary and secondary education alone is compared with expenditures abroad, the U.S. ranking falls to a tie for twelfth place. And when adjustments are made for enrollment size, the U.S. falls further to fourteenth place, spending less than all the other countries except two.

When levels of public spending on education only are compared, showing the social commitment to public education, again the U.S. compares unfavorably with the other countries. Comparisons of public spending for all levels of education, and for K-12 alone, both place the U.S. in fourteenth place. In enrollment adjusted K-12 public expenditures, the U.S. does slightly better, ranking number thirteenth. But by all

comparisons, the U.S. devotes fewer resources to primary and secondary education than do most industrialized nations.

The claim that the U.S. spends more than other nations on education is misleading. By all comparisons, the U.S. devotes a smaller share of its resources to pre-primary, primary and secondary education than do most industrialized countries.

The comparatively weak U.S. investment in K-12 is not a result of a more efficient administrative structure or favorable demographics. In fact, the U.S. might be expected to spend proportionally *more* than other countries because of the particular characteristics of the U.S. school system and American society. Our decentralized school system gives more local autonomy and local choice, but is also more expensive than a single, centrally administered system. Our population is more heterogeneous than in most other countries. Some immigrants do not speak English. Students come from a variety of cultural backgrounds. The very high number of children living in poverty makes additional demands on the school system.

Available data do not permit cross-country comparisons to be made in much more detail, but other evidence suggests that the spending gap is particularly wide between the youngest American and foreign children. For example, it is generally accepted that the U.S. Head Start Program of early childhood education for disadvantaged children age three to five is valuable and cost effective, yet limited federal funding permits only 20 percent of eligible children to take part. Many of our competitors seem to have a stronger commitment to early childhood education, and some of them have nearly universal pre-kindergarten enrollments. In France, 100 percent of four- and five-year-olds attend school/educational day care, 90 percent of three-year-olds attend, and 36 percent of two-year-olds. In Belgium, 96 percent of three- to six-year-olds are in school, and in the Netherlands, 98 percent of four- and five-year-olds.¹⁶

Spending more money is not, of course, the only answer to the difficult problem of revitalizing primary and secondary education in the U.S. But the data presented here indicate that in education, as in every other service, we may "get what we pay for." Given the level of investment in our pre-primary, primary, and secondary schools, it is not surprising that we are slipping behind in comparative measures of performance as well.

**TABLE 1: COMPARISON OF INDUSTRIALIZED COUNTRY EXPENDITURES
FOR EDUCATION, 1985**

<u>Country</u>	<u>EXPENDITURES /GDP</u>		<u>RANK</u>	
	(1) <u>K-12 and Higher Education</u>	(2) <u>K-12 Only</u>	(3) <u>Adjusted^a K-12</u>	
United States	6.8% 2	4.1% 12	4.1% 14	
Australia	5.5 12	3.7 15	3.9 15	
Austria	5.8 11	4.7 7	5.9 2	
Belgium	6.1 7	4.9 5	4.9 5	
Canada	6.8 2	4.7 7	4.7 8	
Denmark	6.0 8	4.5 10	4.8 6	
France ^b	5.9 10	5.1 3	4.6 9	
Germany, West	4.6 16	3.5 16	4.6 9	
Ireland ^b	6.0 8	5.0 4	3.8 16	
Italy ^c	4.8 15	4.1 12	4.2 13	
Japan	6.5 5	4.8 6	4.8 6	
Netherlands ^b	6.8 2	4.7 7	4.5 11	
Norway	6.3 6	5.4 2	5.3 4	
Sweden	7.6 1	6.3 1	7.0 1	
Switzerland	5.1 14	4.2 11	5.8 3	
United Kingdom ^b	5.2 13	3.9 14	4.5 11	
Non-U.S. Average	5.8	4.5	4.6	

^a Adjusted for the 1985 U.S. K-12 enrollment rate

^b 1984 data

^c 1983 data

Sources: UNESCO; Statistical Yearbook, 1988.

National Center for Education Statistics, U.S. Department
of Education; Digest of Education Statistics, 1988.

TABLE 2: COMPARISONS OF PERCENTAGE ENROLLMENTS, 1985

<u>Country</u>	<u>ENROLLMENT/TOTAL POPULATION</u>	
	<u>Higher Education</u>	<u>K-12</u>
United States	5.1%	19.7%
Australia	2.3	18.8
Austria	2.4	15.8
Belgium	2.6	19.8
Canada	4.9	19.6
Denmark	2.3	18.5
France ^a	2.3	21.8
Germany, West	2.5	14.9
Ireland ^a	1.9	25.6
Italy ^b	2.0	19.5
Japan	1.9	20.1
Netherlands ^a	2.7	20.4
Norway	2.1	19.8
Sweden	2.6	18.0
Switzerland	1.7	14.0
United Kingdom ^a	1.8	17.1

^a 1984 data

^b 1983 data

Sources: UNESCO; Statistical Yearbook, 1988.
National Center for Educational Statistics, U.S. Department of Education; Digest of Education Statistics, 1988.

TABLE 3: COMPARISON OF INDUSTRIALIZED COUNTRY OPERATING EXPENDITURES FOR EDUCATION, 1985

<u>Country</u>	<u>EXPENDITURES /GDP</u>		<u>RANK</u>			
	(1) <u>K-12 and Higher Education</u>		(2) <u>K-12 Only</u>		(3) <u>Adjusted^a K-12</u>	
United States	6.2%	3	3.8%	10	3.8%	13
Australia	5.0	11	3.4	15	3.5	15
Austria	5.3	10	4.2	8	5.3	2
Belgium	5.8	5	4.7	3	4.7	4
Canada	6.4	2	4.4	6	4.4	7
Denmark	5.8	5	4.3	7	4.6	6
France ^b	5.6	7	4.8	2	4.3	8
Germany, West	4.1	16	3.2	16	4.2	10
Ireland ^b	5.5	9	4.5	5	3.5	15
Italy ^c	4.4	15	3.8	10	3.9	12
Japan	4.8	13	3.6	14	3.6	14
Netherlands ^b	6.0	4	4.1	9	4.0	11
Norway	5.6	7	4.7	3	4.7	4
Sweden	6.7	1	5.6	1	6.2	1
Switzerland	4.7	14	3.8	10	5.3	2
United Kingdom ^b	5.0	11	3.7	13	4.3	8
Non-US Average	5.1		3.9		4.1	

^a Adjusted for the 1985 U.S. K-12 enrollment rate

^b 1984 data

^c 1983 data

Sources: UNESCO; Statistical Yearbook, 1988.

National Center for Education Statistics, U.S. Department of Education; Digest of Education Statistics, 1988.

TABLE 4: JAPAN AND THE UNITED STATES: PUBLIC AND PRIVATE EDUCATION EXPENDITURES, 1985

	EXPENDITURES/GDP (rank)		
	<u>K-12 and Higher Education</u>	<u>K-12 Only</u>	<u>Adjusted^a K-12</u>
<u>United States</u>			
Public and Private	6.8% (2)	4.1% (12)	4.1% (14)
Public only	5.0 (14)	3.8 (14)	4.3 ^b (13)
<u>Japan</u>			
Public and Private	6.5% (5)	4.8% (6)	4.8% (6)
Public only	5.1 (13)	NA.	NA.

^a Adjusted for the 1985 U.S. K-12 enrollment rate (public plus private)

^b The 1985 U.S. K-12 public enrollment rate is adjusted for the 1985 U.S. K-12 public plus private enrollment rate

NA = not available

Source: UNESCO; Statistical Yearbook, 1988.
National Center for Education Statistics, U.S. Department of Education; Digest of Education Statistics, 1988.

**TABLE 5: COMPARISON OF K-12 1985 EXPENDITURES PER PUPIL
IN INDUSTRIALIZED COUNTRIES**

Converted to Dollars Using:

<u>Country</u>	1985 EXCHANGE RATES		1988 EXCHANGE RATES	
	<u>Expenditures Per Pupil</u>	<u>Rank</u>	<u>Expenditures Per Pupil</u>	<u>Rank</u>
United States	\$3,456	4	\$3,456	9
Australia	2,040	11	2,291	14
Austria	2,564	8	4,297	6
Belgium	2,015	12	3,254	10
Canada	3,322	5	3,683	8
Denmark	2,802	6	4,410	5
France ^a	2,051	10	3,094	12
Germany, West	2,395	9	4,016	7
Ireland ^a	956	16	1,380	16
Italy ^b	1,233	15	1,809	15
Japan	2,647	7	4,927	4
Netherlands ^a	1,919	13	3,224	11
Norway	3,792	3	5,002	3
Sweden	4,224	1	5,932	2
Switzerland	4,205	2	7,061	1
United Kingdom ^a	1,668	14	2,314	13

^a 1984 data

^b 1983 data

Sources: UNESCO; Statistical Yearbook, 1988.
National Center for Education Statistics, U.S.
Department of Education; Digest of Education
Statistics, 1988.

**TABLE 6: COMPARISON OF INDUSTRIALIZED COUNTRY K-12 EXPENDITURES
PER PUPIL AS A PERCENT OF PER CAPITA INCOME, 1985**

<u>Country</u>	<u>Percent</u>	<u>Rank</u>
United States	20.8 ^a	14
Australia	19.5	15
Austria	29.7	2
Belgium	25.0	5
Canada	24.0	8
Denmark	24.5	6
France ^a	23.2	10
Germany, West	23.5	9
Ireland ^a	19.4	16
Italy ^b	21.1	13
Japan	24.1	7
Netherlands ^a	23.0	11
Norway	27.1	4
Sweden	35.3	1
Switzerland	29.6	3
United Kingdom ^a	22.8	12
Non-U.S. Average	23.5	

^a 1984 data

^b 1983 data

Sources: UNESCO; Statistical Yearbook, 1988.
National Center for Education Statistics, U.S.
Department of Education; Digest of Education
Statistics, 1988.

TABLE 7: UNITED STATES K-12 EXPENDITURES, 1949-1985

<u>Year</u>	<u>EXPENDITURES/GDP</u>		
	(1) <u>Total</u>	(2) Adjusted ^a <u>Total</u>	(3) Enrollment as % of <u>Population</u>
1949	2.41%	2.38%	19.08%
1959	3.39	2.78	22.98
1965	4.01	3.03	24.95
1969	4.51	3.37	25.22
1972	4.57	3.56	24.18
1974	4.74	3.81	23.41
1976	4.50	3.73	22.70
1978	4.19	3.69	21.40
1980	4.18	3.88	20.34
1982	4.13	4.00	19.46
1984	4.01	3.98	18.98
1985	4.08	4.08	18.83

^a Adjusted to the 1985 K-12 enrollment rate.

Note: These 1980 and 1985 adjusted expenditures differ from those shown in Tables 1 and 9. See endnote 15 for an explanation.

Source: National Center for Education Statistics, U.S. Department of Education; Digest of Education Statistics, 1988.

**TABLE 8: SOURCE OF PUBLIC REVENUES FOR UNITED STATES
PUBLIC K-12, 1949-1985**

<u>ADJUSTED^a REVENUES/GDP</u>			
<u>Year</u>	<u>(1) Federal</u>	<u>(2) State</u>	<u>(3) Local</u>
1949	.06‡	.82‡	1.18‡
1959	.11	.98	1.41
1965	.22	1.08	1.46
1969	.25	1.23	1.61
1972	.29	1.31	1.69
1974	.31	1.47	1.69
1976	.31	1.51	1.66
1978	.33	1.56	1.53
1980	.33	1.72	1.57
1982	.26	1.75	1.64
1984	.24	1.80	1.63
1985	.25	1.86	1.65
Change 1980-1985	-.08	+.14	+.08

^a Adjusted to the 1985 K-12 enrollment rate.

Source: National Center for Education Statistics, U.S. Department of Education; Digest of Education Statistics, 1988.

**TABLE 9: COMPARISON OF INDUSTRIALIZED COUNTRY 1980 AND 1985
EXPENDITURES FOR EDUCATION**

<u>Country</u>	<u>Total K-12 Expenditures/GDP</u>		<u>Rank</u>	
	<u>1980^a</u>		<u>1985^a</u>	
United States	4.1%	12	4.1%	14
Australia	4.0	13	3.9	15
Austria	5.3	4	5.9	2
Belgium	4.6	9	4.9	5
Canada	4.9	7	4.7	8
Denmark	5.5	3	4.8	6
France ^b	3.8	15	4.6	9
Germany, West	4.4	10	4.6	9
Ireland ^b	4.0	14	3.8	16
Italy ^c	3.8	16	4.2	13
Japan	5.3	4	4.8	6
Netherlands ^b	4.8	8	4.5	11
Norway	5.7	2	5.3	4
Sweden	8.5	1	7.0	1
Switzerland	5.1	6	5.8	3
United Kingdom ^b	4.4	10	4.5	11
Non-U.S. Average	4.6		4.6	

^a Adjusted for 1985 U.S. K-12 enrollment

^b Data listed for 1985 is actually 1984

^c Data listed for 1985 is actually 1983; data listed for 1980 is actually 1979.

Sources: UNESCO; Statistical Yearbook, 1988.

NCES, U.S. Department of Education; Digest of Education Statistics, 1988.

TABLE 10: UNITED STATES K-12 EXPENDITURES, 1980-1989

<u>Year</u>	<u>Expenditures/GDP^b</u>
1980	3.88%
1982	4.00
1985	4.08
1986	4.19
1987 ^a	4.21
1988 ^a	4.20
1989 ^a	4.22

^a Estimate

^b Adjusted for the 1985 K-12 enrollment rate

Source: National Center for Education Statistics, U.S. Department of Education; Digest of Educational Statistics, 1988, and 1989 (forthcoming).

APPENDIX A: METHODOLOGY FOR COMPARING EXPENDITURES

The purpose of this paper is to compare education expenditures, in particular for pre-primary, primary and secondary education, among industrialized countries. The only source of education expenditure data for multiple countries is the UNESCO *Statistical Yearbook*. Data from 1985 and 1980 were examined. 1985 is the most recent year for which data are available for most countries, and 1980 was chosen arbitrarily as a starting point from which to estimate trends.

The 1988 *Yearbook* provides the enrollment and expenditure data for all countries in this report, with the exception of the U.S. 1985 expenditure. Since UNESCO lists no U.S. education expenditure figures for years since 1983, these figures were obtained from the U.S. Department of Education's 1988 *Digest of Education Statistics*. A question immediately arises concerning the comparability of the U.S. and UNESCO data. Examination of total education expenditure figures for 1982 and 1983, the most recent years for which both UNESCO and *Digest* data are available, shows that the numbers correspond quite closely. In 1982, UNESCO's figure was 1.5 percent greater than the *Digest*'s, and in 1983, the *Digest*'s was .93 percent larger than UNESCO's.

Public and Private Expenditures

For all countries except the U.S. and Japan, UNESCO provides data on *public* spending for education which includes nearly all education expenditures. In the U.S., about 25 percent of all education spending is private money which is spent primarily for higher education. The UNESCO figures given for the U.S. are for combined public and private spending. In Japan, approximately 20 percent of all education spending is private and it is also biased toward higher education. Since 1984, the UNESCO figures for Japan include both public and private expenditures. Our calculation of 1980 public and private Japanese education spending is explained below.

Spending for Pre-Primary, Primary, and Secondary Education

Our primary goal is to compare K-12 spending among industrialized countries. Unfortunately, UNESCO does not disaggregate total expenditures into spending for K-12 and higher education, but this information can be calculated from the data given. (In this paper, when the expression K-12 is used, "K" represents all the pre-primary years.) UNESCO divides total education spending into current (operating expenses) and capital expenditures and provides the distribution of *current* expenditures between K-12 and higher education. However, data on capital expenditures are not available by level of schooling. It is therefore necessary to estimate total spending on K-12 by making assumptions about the distribution of capital spending between K-12 and higher

education. (For most countries, capital spending is less than ten percent of total spending.)

First, the ratio of current spending on K-12 to current spending on both K-12 and higher education is determined. This ratio is then applied to total capital expenditures to estimate capital spending for K-12. The estimated K-12 capital spending is added to K-12 current spending to give a preliminary figure for K-12 expenditures. (Other additions to this amount are described below.) This method assumes that capital spending is apportioned between K-12 and higher education exactly as is current spending. Although this assumption is probably not strictly accurate (see below), it affects the calculation of every country's expenditures (by a very small amount), and so will not bias our results toward any particular country. The comparison of K-12 operating expenses (current expenditures) shown in Table 4 yields essentially the same rankings as our comparison of total K-12 spending.

As mentioned above, current expenditures are disaggregated into spending for K-12 and higher education, but also into two additional categories: "other" and "not distributed." The latter two categories, as defined by UNESCO, include, respectively, spending on "special, adult, and other types of education which cannot be classified by level" and "administration for which there is no breakdown by level of education." The U.S. assigns no expenditures to these two categories while in other countries these two items account for up to 25 percent of all current expenditures. Ignoring these two categories would have seriously biased our results. To compare K-12 expenditures among countries, all education spending, including the sizable expenditures listed in the "other" and "not distributed" categories, must be assigned to either K-12 or higher education.

The exact distribution of these expenditures by level of education is not available. Therefore, we estimate their contribution to total K-12 spending by assuming that spending in these two categories is distributed between K-12 and higher education in the same proportion as is the rest of current spending. Adding these amounts to the preliminary K-12 total described above gives total K-12 spending.

1985 U.S. education expenditures are obtained from the *Digest of Education Statistics*. We want to estimate 1985 U.S. spending on K-12 by the same method that is used for the other countries, i.e., by assuming that the percentage of total capital spending which goes to K-12 is the same as the percentage of current spending for K-12. Therefore, we need to know the percentage of current spending for K-12, as well as total current and capital spending for all levels of education. The *Digest* supplies most of these data, except the distribution of private K-12 spending between current and capital expenses. So one additional assumption is necessary to calculate total U.S. K-12 spending. We assume that the ratio of current to capital K-12 spending is the same for private

expenditures as for public. We can then determine total K-12 spending for the U.S.

More detailed data show that current and capital spending in the U.S. are not distributed between K-12 and higher education in the same proportions. K-12 usually accounts for a larger share of current spending than of capital spending. Put another way, capital spending is skewed toward higher education. In our treatment of capital expenditures, some fraction of capital spending for higher education is attributed to K-12. Our method tends to over-estimate K-12 spending, especially for the U.S. where expenditures on higher education are so large. This upward bias in our estimate of K-12 spending, particularly for the U.S., is a bias against our conclusion that the U.S. is a low spender on pre-primary, primary, and secondary education.

Japan presents other difficulties. As noted above, 20 percent of all education spending in Japan is private money. Therefore we need to include both public and private expenditures in our calculations of K-12 spending. Beginning in 1984, UNESCO lists both total (public plus private) education spending and public spending for Japan. Prior to 1984, only public expenditures are provided. In Table 9, 1980 combined public and private education expenditures are estimated by increasing the 1980 public spending figure by the percentage of 1985 private to public spending. This assumes that private expenditure as a percentage of total spending was equal in 1980 and 1985. Another piece of information is also lacking. To calculate public plus private K-12 spending in 1980, the distribution of private as well as public spending by level of education is needed. But this information is provided for public spending only. Since private expenditures are skewed toward higher education, we would be wrong to assume equivalent distributions between K-12 and higher education for both public and private expenditures. Therefore, we use the 1985 distribution figure for public plus private spending, applied to the 1980 combined expenditures, to estimate total 1980 K-12 spending in Japan.

Enrollments and Enrollment Adjusted Expenditures

UNESCO data on enrollments are used to make all the international comparisons. The enrollment figures include students in both private and public schools since the expenditures cover both private and public schools.

Because different countries have different proportions of school-age children in their populations, some adjustment must be made for differing enrollment rates among countries. For example, when expenditures are expressed as a percentage of national income, a country with 20 percent of its population enrolled in school would be expected to spend more on education than a country with an enrollment rate of only 15 percent. To

permit meaningful comparisons, expenditures must be adjusted to a common enrollment rate, where the enrollment rate is calculated as the percentage of the population actually enrolled in school.

Any enrollment rate could have been chosen as the standard to which all countries' expenditures are adjusted. We chose the 1985 U.S. rate. To adjust other countries' expenditures to the U.S. enrollment rate, foreign expenditures as a percentage of GDP are multiplied by the ratio of the U.S. enrollment rate to the foreign enrollment rate. This raises (lowers) expenditures for countries with enrollment rates below (above) those of the U.S. The adjusted expenditure figure shows the level of spending which would occur if each country enrolled the same percentage of the population as did the U.S., while its rate of spending remained unchanged. This adjustment assumes constant returns to scale in education.

Non-U.S. Averages

A non-U.S. average is the weighted average of all countries' (except the U.S.) expenditures expressed as a percentage of GDP. The weights are the ratio of the number of each country's students over the total number of students in all (except the U.S.) countries.

APPENDIX B: EDUCATION SHARE OF NATIONAL SPENDING.

To indicate the national effort expended on education by each country, the education spending data in Table 1 is expressed as a portion of total national *income*, i.e., Gross Domestic Product. Usually national spending equals national income. However, when a country has a trade deficit (or surplus), national income and national spending diverge by the amount of the deficit (or surplus). This has the effect of making the education effort appear relatively greater in a deficit nation and relatively smaller in a surplus country. In effect, using national income as the denominator does not take into account the fact that the total national spending in a trade deficit country has been swollen by borrowing from abroad. In a trade deficit country, national spending is greater than national income, and education expenditures are a smaller share of national spending than of national income. Thus, a more accurate picture might be obtained by comparing the fraction of each country's total national *spending* which is devoted to education.

Table B1 shows education expenditures as a percentage of national spending for the U.S., which has a large trade deficit, and the two major trade surplus countries -- West Germany and Japan. In 1985, U.S. spending on pre-primary, primary and secondary education was only 3.99 percent of total national spending, while Germany spent 4.81 percent and Japan 4.92 percent. In either case, whether education expenditures are calculated as a share of national income or national spending, the U.S. spends less than all but two of the 16 countries studied.

TABLE B1: TRADE ADJUSTED EDUCATION EXPENDITURES, 1985
(in millions)

	<u>Germany (DM)</u>	<u>Japan (Y)</u>	<u>United States (\$)</u>
1. GDP	1,830,490	316,303,000	3,967,472
2. Trade Surplus	66,390	10,775,000	-118,652
3. Total Spending (1-2)	1,764,100	305,528,000	4,086,124
4. Adjusted K-12 Spending	84,806	15,022,619	162,960
-As Share of GDP	4.6%	4.8%	4.1%
-As Share of Total Spending	4.8%	4.9%	4.0%

Sources: National Center for Education Statistics, U.S. Department of Education; Digest of Educational Statistics, 1988.
UNESCO; Statistical Yearbook, 1988.
OECD, National Accounts, Vol. 1, 1989.

Endnotes

1. Speech at Education Summit, University of Virginia, September, 28, 1989. (White House transcript).
2. Press Briefing, Charlottesville, Virginia; September 27, 1989. (White House transcript).
3. Press Conference, May 3, 1989. (U.S. Department of Education transcript).
4. Speech at an American Council for Capital Formation conference, Washington, D.C., October 12, 1989. (ACCF transcript).
5. "Bargain Remedies for our Educators," *New York Times*, June 22, 1989.
6. NBC "Today Show," September 27, 1989.
7. Speech at an American Council for Capital Formation conference, Washington, D.C., October 12, 1989. (ACCF transcript).
8. Included in the study are Canada, Japan, Australia, and all of western Europe, except for the three least wealthy countries: Turkey, Greece and Portugal. Spain is omitted because the UNESCO data are insufficient, and Luxembourg because of its small size. Other analysts might prefer another grouping of countries. However, any selection of industrialized countries would show the U.S. to be a relatively low spender on education.
9. UNESCO. 1988. *Statistical Yearbook*. Paris: UNESCO. This is virtually the only source of data for making international comparisons of education spending. It was the data source for comparative studies of education spending done by the U.S. Department of Education and the Congressional Research Service. Some of the UNESCO data are reproduced in the annual *Statistical Abstract of the United States* by the U.S. Department of Commerce.
10. National Center for Education Statistics, U.S. Department of Education. 1988. *Digest of Education Statistics*. Washington, D.C.: Government Printing Office.
11. It might be argued that the U.S. "backloads" education system by putting more money into higher education. If so, comparing education spending at the K-12 level, as we do, biases any comparison against the U.S. system and the appropriate comparison is spending for all education levels (which shows the U.S. is a relatively high spender). This may or may not be so. However, if the U.S. system must be evaluated at the collegiate level then no cross-country comparisons of spending and student performance are

possible since student test scores are only available for fourteen year olds. As a result, there are no data to support the claim that we have high spending and low performance.

12. There are many factors which account for the lower expenditures of private schools. In 1985, 75 percent of private primary and secondary students were in grades K-8, and only 25 percent were in grades 9-12. Education in the lower grades is less expensive than education in higher grades. Many private schools offer fewer extracurricular activities and special classes than do public schools. Private schools also receive some public monies, although the U.S. Department of Education does not calculate the exact amounts. The sources of these funds include the Title I program for low income students, salaries for some special education teachers, sharing of textbooks and bus transportation, and others.
13. Purchasing power parity rates could be used for the conversions, but these also give misleading results. Expenditures must be related to some measure of national income.
14. This is not a second, independent confirmation of this ranking, but a different calculation using the same data as in Table 1.
15. The enrollment adjusted expenditure figures of Tables 7 and 10 differ from those in Tables 1 and 9. Since UNESCO does not provide any expenditure or enrollment information for years after 1986, all data, both expenditures and enrollments, in Tables 7 and 10 were obtained from the 1988 and 1989 (forthcoming) *Digest of Education Statistics*. The 1985 figure of 4.08 percent, calculated from the *Digest* data, is close to the value in Tables 1 and 9 of 4.1 percent. Differences stem from our use of a calculated capital expenditure figure which is greater than true spending, and from minor discrepancies between the U.S. and UNESCO data. The 1980 figure of 4.1 percent in Table 9 is 6 percent greater than the 3.88 percent shown in Tables 7 and 10. UNESCO lists 1980 K-12 expenditure as \$116.0 billion which is very similar to the 1981 *Digest's* figure of \$116.3 billion. However, the 1988 *Digest* gives a revised 1980 K-12 expenditure of \$112.3 billion, and this is the value used in Tables 7 and 10. Also, UNESCO enrollment figures tend to be larger than those reported by the U.S. These two factors account for the difference between the 1980 numbers.
16. Hough, J.R. 1984. "France" in *Educational Policy, an International Survey*, J.R.Hough, ed., New York: St Martin's Press.

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THINK TANK FINDS BUSH IS WRONG: U.S. SPENDING ON EDUCATION LAGS BEHIND THAT OF MOST OTHER INDUSTRIAL NATIONS

**Report Shows Bush Administration Rationale Against Increased
Education Investment Is Not Supported by Analysis of K-12 Outlays**

U.S. ranks 14th of 16 nations in international comparison

Washington, DC -- President Bush, despite his desire to be known as the "Education President," has repeatedly opposed substantially increased spending on the nation's schools. The President and officials of his administration have claimed that this country already spends more on education than those nations which regularly surpass us in tests of educational performance. (See compiled quotes in report, pp. 1 and 2.)

A new report released today by the **Economic Policy Institute** concludes that the facts do not support the President's arguments. The study finds that 13 other industrial countries invest more, relative to the size of their economy, on grades K-12 than does the United States. Among the 16 countries whose education spending the EPI study measures, Sweden ranked first. Others whose spending was found to be higher than the U.S. are Japan (ranked 6th), West Germany (tied with France for 9th highest spender), Norway (4th), and Austria (2nd). Only Ireland and Australia were found to invest less on basic education than the U.S. (ranked 14th).

The report points out that the statistics cited by the Administration measure total education spending, including expenditures for postsecondary, college and university education, but that virtually all of the recent reports and commissions on U.S. educational deficiencies have identified education in grades K through 12 as the part of the system which needs improvement. When spending on higher education is removed from the comparative data, the relative position of U.S. spending falls from a three-

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way tie for second highest in spending to close to the bottom of the group of 16 industrial nations.

The EPI report, entitled ***Shortchanging Education: How U.S. Spending on Grades K-12 Lags Behind Other Industrial Nations***, was written by Edith Rasell, a staff economist at the Institute and by EPI Research Director Lawrence Mishel. The authors used widely-accepted data published by UNESCO and the *U.S. Digest of Education Statistics*, to compare education spending for 1985 (the latest data available) in 16 industrialized countries including most of Western Europe, Japan, Canada and the U.S. The data come from the same sources relied on by the Administration.

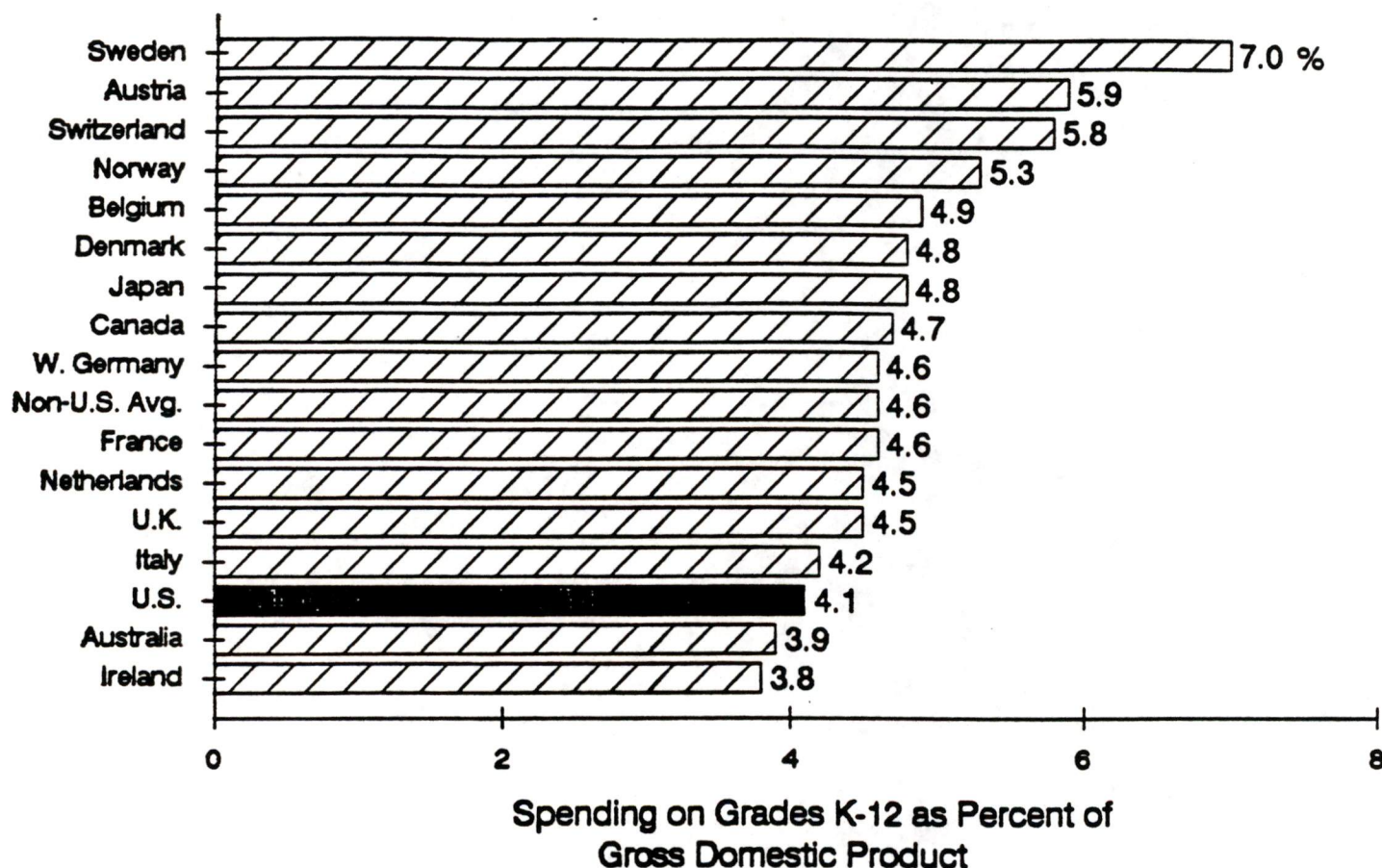
Among the report's major findings are the following:

- U.S. public and private spending on pre-primary, primary and secondary education, is lower than in most other countries. When the raw (unadjusted) data are considered, the U.S. ties for twelfth place among 16 industrialized nations, investing less than all but three countries.
- Because some countries have a larger percentage of school age children in their population than others, the study also calculates expenditures for K-12 adjusted to account for these differences in enrollment rates and finds that the U.S. falls to fourteenth place, spending less than all the other countries but two.
- If the U.S. were to increase spending for primary and secondary school up to the average level found in the other 15 countries, we would need to raise spending by over \$20 billion annually.

Bush Administration officials' claims of high relative levels of U.S. education spending are sometimes couched in terms of spending as a percent of total national income ("We spend a very large amount of our national income on education." -- Council of Economic Advisers Chairman, Michael Boskin), and they are sometimes couched in terms of spending per pupil ("We are already spending more money per student than our major foreign competitors, Japan and Germany." -- Secretary of Education Lauro Cavazos). The EPI report calculates its education spending comparisons both ways and finds that, when size differences of school age population

and currency fluctuations are accounted for, the relative position of the United States turns out to be virtually the same: only two or three other nations out of the 16 studied invest less on basic education than the U.S.

Comparison of Industrialized Country Education Expenditures, 1985



The authors of the report note that this is the first time that economists have examined the factual underpinnings of the Bush Administration's claims about education spending, which have had a major impact on the public debate about educational reform. "Over the past year, as they have declared their interest in improving education, President Bush, CEA Chairman Michael Boskin, White House Chief of Staff John Sununu, Education Secretary Lauro Cavazos and other Administration officials have repeated these statistical claims which have effectively ruled out consideration of increased federal financial support for education," declared report co-author Lawrence Mishel. "But when you examine the

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parts of the educational system which need improvement, it turns out that the U.S. spends less than any of our major international competitors. Although not all needed educational reforms cost more money, this report shows that we cannot dismiss the idea that more money might help improve basic education," said Mishel.

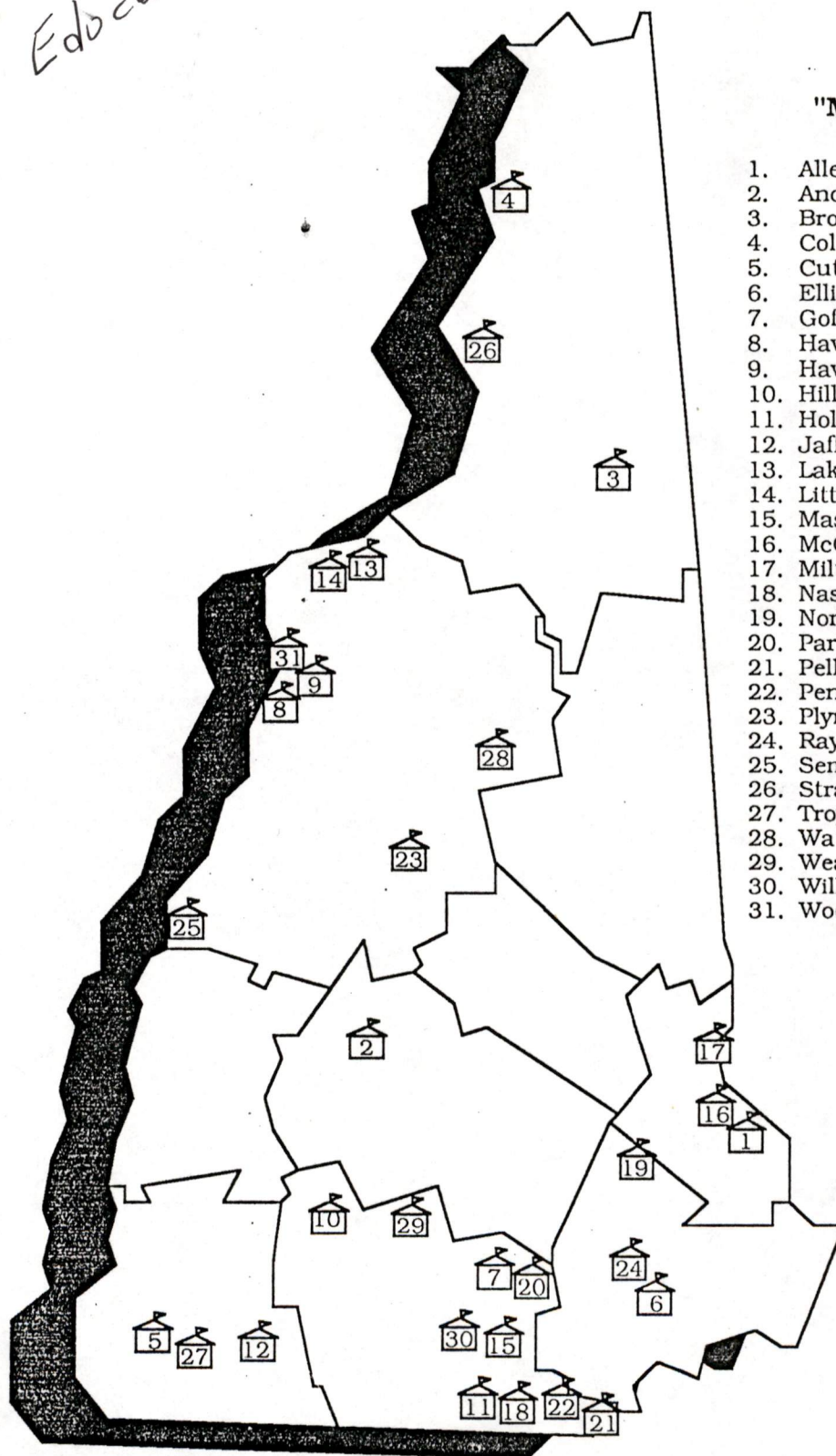
The study calculates that it would take additional investments of more than \$20 billion per year just to bring the U.S. up to the average level of spending of the 16 nations studied. But the report's other author, economist Edith Rasell, noted that there are many characteristics of the U.S. education system that might make it more expensive for the U.S. to achieve levels of educational performance comparable to that of other countries. "Because the United States is a huge continental nation with a decentralized school system and with higher rates of poverty and immigration than most other industrialized countries, we could expect education expenses to be higher than in a smaller, more homogeneous nation," she observed. "For example, France and Belgium have near-universal enrollment of three to six-year-olds in pre-kindergarten educational programs. But despite the overwhelming evidence of the value of early education, the U.S., with its decentralized system, has a much smaller percentage of children in these programs. As a result, we have to invest more money in compensatory education thereafter just to achieve the same level of performance."

The report concludes by noting that more money is not the only answer to the difficult problems of revitalizing primary and secondary education in the U.S. But, it warns, "the data presented here indicate that, in education, as in every other service, we may 'get what we pay for.' Given the level of investment in our pre-primary, primary, and secondary schools, it is not surprising that we are slipping behind in comparative measures of performance as well."

The report issued today is one of a series of analytical briefing paper studies on key economic policy issues regularly published by the **Economic Policy Institute**, a non-profit, non-partisan economic think tank founded in 1986 and supported by grants from foundations, labor unions, corporations, and individuals. The Institute's founders include economic policy experts Lester Thurow, Robert Reich, Robert Kuttner, Barry Bluestone, Ray Marshall, and EPI's President, Jeff Faux.

Education

"Making our good schools better."



1. Allen Elementary, Rochester
2. Andover Elementary, Andover
3. Brown Elementary, Berlin
4. Colebrook Elementary, Colebrook
5. Cutler Elementary, West Swanzey
6. Ellis Elementary, Fremont
7. Goffstown Area High School, Goffstown
8. Haverhill Academy Jr. High, Haverhill
9. Haverhill Cooperative Elementary Schools
10. Hillsboro-Deering High School, Hillsboro
11. Hollis Area High School, Hollis
12. Jaffrey-Rindge Middle School, Jaffrey
13. Lakeway Elementary, Littleton
14. Littleton Jr/Sr High Schools, Littleton
15. Mastricola Middle School, Merrimack
16. McClelland Elementary, Rochester
17. Milton Elementary, Milton
18. Nashua High School, Nashua
19. Northwood Elementary, Northwood
20. Parker-Varney Elementary, Manchester
21. Pelham High School, Pelham
22. Pennichuck Junior High School, Nashua
23. Plymouth Elementary, Plymouth
24. Raymond High School, Raymond
25. Seminary Hill Elementary, West Lebanon
26. Stratford Public School, Stratford
27. Troy Elementary, Troy
28. Waterville Valley Elementary, Waterville Valley
29. Weare Schools, Weare
30. Wilkins Elementary, Amherst
31. Woodsville, High School, Woodsville

The School Improvement Program

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UNITED STATES DEPARTMENT OF EDUCATION
THE SECRETARY

FEB 1 1990

THE CHIEF of STAFF
has seen

Honorable Thomas S. Foley
Speaker of the House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

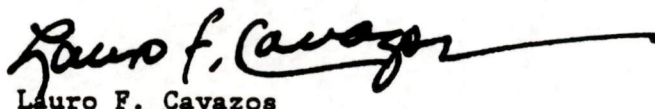
In your remarks following the President's State of the Union Message last night, you referred to an overall 2.1 percent increase in his proposed budget for the Department of Education. I feel it is important to set the record straight with several key points:

- o The President's budget for the Department of Education actually reflects an overall increase of 6.2 percent for discretionary programs--those that will assist in meeting the national education goals announced last night by the President. The 2.1 percent figure is misleading because it is a net figure and is lower than it would otherwise be since it includes a substantial reduction in the costs of Guaranteed Student Loans due to a projected decline in interest rates. This is not a program reduction.
- o Furthermore, the Head Start budget, which directly addresses the first goal of preparing every child for entry into school, is increased by 36 percent. Combined with our 6.2 percent increase, the \$500 million in Head Start yields an 8.3 percent increase in combined education discretionary activities of ED and HHS--twice the rate of inflation.
- o These goals are goals for the Nation--not just the Federal Government. Their achievement will depend on efforts by States and localities--who support 94 percent of our total education effort, while the Federal share is only 6 percent.
- o This year, as a Nation, we will spend \$353 billion a year on education--a 113 percent increase in current dollars since 1980, and a 37 percent increase even after adjusting for inflation. These spending increases have not produced corresponding increases in educational achievement.

I repeat what I have said many times--we need to restructure our educational system. We need greater accountability, school-based management, and other reforms in place before we can expect results from dramatic new levels of education spending. Action on the pending education legislation submitted by the President in the last session will certainly move us closer to the reform goals that we all share.

I look forward to working with you and the other members of Congress as we strive together to make America's education system the finest in the world.

Sincerely,


Lauro F. Cavazos

bcc: Governor Sununu
David Bates