

Abstract

This paper examines the effect of different education financing systems on the level and distribution of resources devoted to public education. We focus on California, which in the 1970's was transformed from a system of mixed local and state financing to one of effectively pure state finance and subsequently saw its funding of public education fall between ten and fifteen percent relative to the rest of the US. We show that a simple political economy model of public finance can account for the bulk of this drop. We find that while the distribution of spending became more equal, this was mainly at the cost of a large reduction in spending in the wealthier communities with little increase for the poorer districts. Our model implies that there is no simple trade-off between equity and resources; we show that if California had moved to the opposite extreme and abolished state aid altogether, funding for public education would also have dropped by almost ten percent.

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