Educating the Poor: Time to Boost Funds
Commentary
Jane Hannaway

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The education bill sculpted, sanded, and polished by the Senate passed last week with strong bipartisan support. This important bill provides support for schools serving disadvantaged students, and promotes accountability as the basis of school reform.

At issue now is funding. As a key amendment requires, funds will go to the schools serving only the neediest students—but how much funding?

These questions must be determined in the shadow of another bill, not usually considered in this context, but perhaps even more important to US education’s longer-term future. Indeed, the tax bill that the president just signed represents seismic shifts in how government supports education and who gets that support. But like Henry James’s "golden bowl," the tax bill’s education provision is a beguiling piece of work with a fatal flaw. It provides a windfall for the middle class, does nothing for the poor, and calls into question the principles that traditionally have guided the federal role in education.

The new tax bill increases tax expenditures for education to about $10 billion a year. That sum will rise over the next few years (as the tax benefits are phased in) and represent a rising share of the $80 billion the government spends on education and student loans. For perspective, as recently as 1996 all federal dollars for education were distributed as grants or loans.

Using the tax code to support education isn’t just a way to sidestep political gridlock. True, it makes expenditures harder to trace and less amenable to political control. Nobody has to fuss with the systematic review that grant programs usually get during both the authorization and appropriations processes. But the real kicker is that the bill represents a fundamental shift from directing federal support for education to low-income families—the traditional mission of federal education aid—to federal support for the middle class.

Republicans may take heat for shifting to tax expenditures for federal education support. But the Clinton administration let the genie out of the bottle. On its watch, grants targeted to low-income students, which do not have to be repaid, slipped from 26 percent of federal spending on post-secondary education (which gets two-thirds of all federal education dollars) to 14 percent; meanwhile, tax expenditures increased from 0 percent of such spending to 12 percent. (Most of the rest went for student loans used primarily by the middle class.)

Building on this momentum, the Bush administration has extended education tax benefits further into the middle and upper-middle class. Most significant, the tax bill modifies the education IRA, which allows earnings to accumulate and be withdrawn tax free if used for education. First, it increases the limit on contributions to $2,000 a year and raises the income level at which benefits begin to phase out to about $190,000, making many well-off families eligible. Second, it expands these benefits to cover elementary and secondary education. In effect, we now have a federally financed voucher system operating pretty much under the radar screen.

Out in the open, of course, vouchers are not likely to be supported in the final education bill, even as an experiment. The voucher proposal that died in the Senate could have threatened some public schools; the downside risks of a voucher system are not well understood. But at least this proposal would give children in low-performing public schools a second chance, and it might stimulate school reform. As an experiment, it also could teach us more in practice about the merits and drawbacks of vouchers.
By contrast, the tax-based scheme offers no help to poor children trapped in failing schools, and no incentive for school reform. Indeed, its main beneficiaries will probably be the parents of students already in private schools.

The tax-based system of assistance challenges the principle of equal opportunity that has guided federal education aid for decades. Since both political parties short-shrifted this ideal, the bipartisan coalition behind the education bill should now offer schools serving the most disadvantaged students the money to make the improvements for which they will be held accountable. The middle class got its handout in the tax bill. Let’s make sure the education bill gives low-income Americans theirs.

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