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Fixing Education Spending in Illinois Through Efficient Targeted Funding

Conor Desmond¹

Educational attainment has been tied to income levels², employment³, health⁴, and numerous other benefits. Economic research indicates that if we focus our funding on programs targeting children from birth to age five, the returns on the public investment will result in higher returns than if it was invested in the open market.⁵ In fact, fifteen US States spent over \$400 million on pre-k education alone in 2013.⁶ Illinois spent approximately \$300 million in the 2014 Fiscal year.⁷ Through this paper, it will be shown that through effective funding of programs that develop cognitive skills in children aged three to four, Illinois taxpayers will receive a seven to ten percent return on their investment through economic benefits, decreased welfare costs, improved overall health, other benefits to society at large. It would even put a dent in our State's deficits.

THE STATE OF EDUCATION IN THE LAND OF LINCOLN

While the Illinois Constitution provides for publically funded secondary schools, funding such a system is at the discretion of the Illinois General Assembly and localities. In general, the Illinois Legislature does provide some funding for elementary and other schools, but the system is woefully inade-

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² Baum, Ma and Payea, *Education Pays 2013: The Benefits of Higher Education for Individuals and Society*, accessed at: <http://trends.collegeboard.org/sites/default/files/education-pays-2013-full-report.pdf>.

³ U.S. Bureau of Labor Statistics, *Earnings and unemployment rates by educational attainment*, March 24, 2014 accessed at: http://www.bls.gov/emp/ep_chart_001.htm.

⁴ National Poverty Center, *Education and Health Policy Brief#9, March 2007* accessed at: http://www.npc.umich.edu/publications/policy_briefs/brief9/policy_brief9.pdf.

⁵ Heckman, James, *Letter to National Commission on Fiscal Responsibility and Budget Reform*, accessed at <http://heckmanequation.org/content/resource/letter-national-commission-fiscal-responsibility-and-reform>. (Returns on equity are estimated to be approximately 5.5%).

⁶ Greeley, Brendan, *The Heckman Equation: Early Childhood Education Benefits All*, January 16, 2014 accessed at www.businessweek.com/articles/2014-01-16/the-heckman-equation-early-childhood-education-benefits-all.

⁷ <http://catalyst-chicago.org/2014/10/seeking-federal-grant-illinois-promises-huge-investments-in-early/>

quate. Illinois State funding of public education programs is dead last in the nation.⁸ These deficiencies, along with other factors, place Illinois 28th in education in the United States.⁹

Beyond education, Illinois is far behind its counterparts on numerous other measures. Illinois is considered in the bottom quarter of states in terms of Economy, Job Creation, Unemployment, Economic Output, Local Tax Burden and Childhood Obesity.¹⁰ Additionally, Illinois suffers from a \$9 Billion dollar operating deficit.¹¹ However, Illinois currently leads the nation with the highest percentage of three-year olds served by State funded preschool, according to the Illinois State Board of Education.¹²

HECKMAN'S RESEARCH

In 1960, a long-term study was launched to the effects on students from low-income families who attended preschool versus those who did not.¹³ Since the beginning of the students enrollment in preschool, researchers were given periodic access to assess the attendees fiscal, demographic and other status. Researchers found that the attendees were more likely to own homes and less likely to have to apply for social services than the general population who did not attend preschool. Additionally, the boys in the program were more likely to grow up to raise their own families and less likely to ever be arrested.¹⁴ A parallel study in Chapel Hill, NC reached similar results that indicated participants in the same setting who attended preschool had higher test scores than their peers and were more likely to matriculate to college. Professor James Heckman, a Nobel Prize winning economist and noted educational policy

⁸ Illinois State Board of Education, *Fact Sheet: Illinois Ranks Last in State Contribution to P-12 funding; EFAB "Foundation level" Not Approved Since FY02*, February 2013, accessed at: <http://www.isbe.state.il.us/budget/FY14/fact-sheet4-efab.pdf>.

⁹ Chicago Tribune Editorial, *How Illinois ranks in U.S. on key indicators*, Chicago Tribune, April 8, 2014, accessed at: http://articles.chicagotribune.com/2014-04-08/opinion/ct-state-of-illinois-2014-edit-20140330_1_illinois-ties-worst-states-tax-foundation/. This ranking takes into account teacher quality, access to charter schools and other educational factors.

¹⁰ *Id.*

¹¹ Hinz, Greg, *Illinois' budget deficit twice as bad as you think*, Crain's Chicago Business, January 19, 2015, accessed at: <http://www.chicagobusiness.com/article/20150119/BLOGS02/150119831/illinois-budget-deficit-twice-as-bad-as-you-think>.

¹² *Id.*

¹³ Greeley, Brendan, *The Heckman Equation: Early Childhood Education Benefits All*, January 16, 2014 accessed at www.businessweek.com/articles/2014-01-16/the-heckman-equation-early-childhood-education-benefits-all.

¹⁴ *Id.*

scholar, saw this data and chose to analyze it beyond mere educational benchmarks.

His analysis of the studies indicated that for each dollar spent at age four, educating lower income families was worth somewhere between \$6 and \$300 dollars by the time the participants were 65.¹⁵ But rather than receiving hard cash returns, the return on investment was derived from increased tax revenues, higher wages, and significantly reduced police costs. Further analysis of these studies and other data indicates that early intervention in early childhood education for disadvantaged children results in preventing future problems in health and social economic productivity, which affects our future global competitiveness and security.¹⁶

Heckman's studies indicate that the early intervention is vital – by making free preschool education available for low-income families, students develop higher levels of non-cognitive abilities such as character, social-emotional development, and communication skills.¹⁷ The psychological traits that predict occupational achievement turn out to be strongly predictive of other negative outcomes such as smoking, unemployment, teenage pregnancy, reduced wages and other major drags on State and National economies.¹⁸ Beyond studying the effects of what Pre-K funding has on low-income individuals and students who would not have access to such early education, Heckman's group also studied the effectiveness of when the additional training is most effective.

Is there a point where the effects of such programs become diminished or is there some point where public funds could be used most effectively? Heckman's group concluded in a 2008 study that there is indeed a relationship between the timing of investment in education programs and the return to a unit dollar invested.¹⁹ His group concluded that invested money results in the highest rate of return in the 0-3 age range of a child's education. His data suggest that programs targeting children at birth result in the greatest returns because it can have the greatest effect. At that time in a child's development, the expression of certain types of genomic expression can occur that would

¹⁵ *Id.*

¹⁶ Heckman, James, *Letter to National Commission on Fiscal Responsibility and Budget Reform*, accessed at <http://heckmanequation.org/content/resource/letter-national-commission-fiscal-responsibility-and-reform>.

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ Heckman, James, *Letter to National Commission on Fiscal Responsibility and Budget Reform*, accessed at <http://heckmanequation.org/content/resource/letter-national-commission-fiscal-responsibility-and-reform>.

result in higher cognitive and character development at a later date.²⁰ Heckman's study went on to show that as the child increases in age, the effectiveness of programs diminishes rapidly. By the time a child reaches elementary school, it may already be too late, as the child may be deficient in certain areas and require remediation to bring them back in line with their counterparts who did attend school and gained benefits of such developmental programs.²¹

ILLINOIS FINANCES

It is not a secret that Illinois has financial problems. Years of diminishing tax revenues, increasing spending obligations and other policy issues have left Illinois with an approximate \$47.8 billion dollar annual budget deficit.²² It is estimated that Illinois has approximately \$321 billion dollars in total debt from multiple years of deficits.²³ Recovering from this deficit will be incredibly difficult unless we apply creative solutions rather than slashing spending and raising taxes.²⁴

EXECUTING THE HECKMAN EQUATION IN ILLINOIS

*"Budget deficits are created by unwise spending. Budget deficits are solved by wiser spending informed by data and decision-making highly attuned to achieving greater value on investment."*²⁵

This creative and efficient data-driven spending thinking needs to be implemented in Illinois as part of a comprehensive strategy to address our State's massive shortfall. Not only will this program eventually cause reductions in expenses in health, crime, education and several other areas, it will also create a

²⁰ Heckman, James, *Letter to National Commission on Fiscal Responsibility and Budget Reform*, accessed at <http://heckmanequation.org/content/resource/letter-national-commission-fiscal-responsibility-and-reform>.

²¹ *Id.*

²² <http://www.illinoisherald.com/articles/2014/q1/il-ranks-last-nation-again-record-annual-deficit/>

²³ Eucalito, Cory, *State Budget Solutions Fourth Annual State Debt Report*, State Budget Solutions, accessed at: <http://www.statebudgetsolutions.org/publications/detail/state-budget-solutions-fourth-annual-state-debt-report>.

²⁴ Illinois Gov. Rauner's proposed budget only seeks to increase early childhood education by \$25 million versus the requested \$750 million request from the Illinois State Board of Education. At time of drafting, this discrepancy in funding in budget and the request had yet to be resolved.

²⁵ Heckman, James, *Letter to National Commission on Fiscal Responsibility and Budget Reform*, accessed at <http://heckmanequation.org/content/resource/letter-national-commission-fiscal-responsibility-and-reform>.

more robust tax base, increase revenues and move Illinois into a more competitive position in the world economy.

By implementing a similar program to the ones studied by Professor Heckman, Illinois can realize gains in areas that weigh heavily on our annual budget deficit. Children who receive cognitive and early childhood development boosts from programs advocated for by Professor Heckman regularly report having healthier lifestyles. This is consistent with the cognitive theory that a higher educated population will avoid riskier health options, such as smoking or obesity, and will likely maintain a healthier lifestyle overall. Through character development, we can teach children at a young age to implement habits that will encourage a healthier lifestyle and thus reduce Illinois' skyrocketing health costs. We can minimize State spending on emergency and interventionary actions. In this same vein of thinking, costs associated with imprisonment, criminal enforcement and courts would be reduced significantly as a higher educated populace with greater character development would inherently avoid risky behavior.²⁶ Additionally, high school truancy would drop, college attendance would increase and in general, we would have a higher quality workforce.²⁷

While all these benefits, and numerous others that we might not be able to foresee, are admirable, many critics of programs like this argue that we simply cannot afford to spend any more money. To do so, critics argue, would be fiscally irresponsible and would only worsen our current crisis. While they may have a valid point about excess spending and inappropriate or inefficient spending, this program does not fall into that category. Yet their arguments do not fully comprehend the return on investment available through this project. Under Heckman's theories, for every \$1 billion dollars Illinois invests in a quality pre-k education program for three and four year olds, we would likely see somewhere between \$7 billion dollars and \$10 billion dollars in return.²⁸ If we use today's annual budget deficit as a guide, and we only spent \$1 billion dollars, that would be a 15-22% deduction in the annual deficit.²⁹

One final criticism of these numbers is the concern that not all those benefits would roll back to the Illinois public in general if we invest now. It could

²⁶ Heckman, James, *Letter to National Commission on Fiscal Responsibility and Budget Reform*, accessed at <http://heckmanequation.org/content/resource/letter-national-commission-fiscal-responsibility-and-reform>.

²⁷ *Id.*

²⁸ Simple application of the Heckman Equation.

²⁹ Calculation performed by Conor Desmond. This calculation does not take into account inflationary changes in value.

take 16, 21 or even up to 40 years to see these returns. Even if it takes that long, it is a worthwhile investment simply because there are few other realistic options. If we choose to apply this step in Illinois, how much should we spend?

The estimated cost for a full day of high quality pre-k education per student is \$8,000.³⁰ This obviously varies from State to State but this is a reasonable estimate. According to estimates by the Illinois Department of Health and Human Services, there are somewhere around 564,000 students.³¹ One final factor to consider would be the attendance rate of the population, as not all families would choose to send their children to state-run Pre-K education. A reasonable estimate of attendance is 75%, meaning that 75% of all four year olds would attend publically-funded Pre-K programs. Factoring all that together results in an estimated yearly cost of 3.384 billion dollars to provide universally available Pre-K for four year olds in Illinois.³² Additionally, the Federal Government spends about 7 billion dollars on Pre-K education.³³ If Illinois were given a proportional size of that pot, Illinois would receive approximately 13.7%³⁴, or 959 million dollars.³⁵ Factoring in that appropriation, the contribution by the State of Illinois to a universal Pre-K program would be 2.425 billion dollars.³⁶

Applying the Heckman Equation, that results in 16.975 - 24.250 billion dollars in returned cost savings and other benefits. Those benefits could reduce our annual budget deficit by nearly 50%.³⁷ This type of opportunity to improve Illinois' educational spending and the State's terrible budget deficit should absolutely be considered.

³⁰ Holt, Alex, *Doing the math: the cost of publicly funding universal pre-k*, March 14, 2003, accessed at: http://earlyed.newamerica.net/blogposts/2013/doing_the_math_the_cost_of_publicly_funded_universal_pre_k-80821.

³¹ Illinois Department of Health and Human Services, *Policy Research Brief: access to preschool in Illinois*, 2008, accessed at: http://www.actforchildren.org/content_assets/MDP_ResearchPublications_PDFs_AccessPreK.pdf.

³² Calculated by Conor Desmond, $.75$ (attendance rate) * $564,000$ (students) * $\$8,000$ (Cost per student) = 3.384 billion dollars

³³ Holt, Alex, *Doing the math: the cost of publicly funding universal pre-k*, March 14, 2003, accessed at: http://earlyed.newamerica.net/blogposts/2013/doing_the_math_the_cost_of_publicly_funded_universal_pre_k-80821.

³⁴ Calculated by Conor Desmond, $(564,000 \text{ Illinois Students} / 4,100,000 \text{ Total 4 Year Olds}) * 100 = 13.7\%$

³⁵ Calculated by Conor Desmond, $\$7,000,000,000$ Dollars spent by Federal Government * $13.7\% = \$959,000,000$

³⁶ Calculated by Conor Desmond, $\$3.384 \text{ Billion (Cost for Illinois Program)} - \$959 \text{ Million (Federal Appropriation)} = \$2.425 \text{ Billion Dollars}$.

³⁷ As it stands in FY 2014.

IT IS FISCALLY RESPONSIBLE TO APPLY
HECKMAN'S FORMULA TO ILLINOIS

Illinois is facing record deficits and is quickly running out of options to manage such an immense deficit load. Executing the conclusions and lessons of the Heckman Equation in Illinois would lead to massive improvements in not just our deficit and total owed debt, lowered costs in health, criminal enforcement, but would also push Illinois's economy into overdrive and would bring in more tax revenues. It is not only our fiscal duty to push for efficient and effective solutions such as this, but it is a moralistic mission for us to ensure that the next generation is prepared cognitively and with strong character development to face the challenges of the future.