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Elise St. John
San Jose State University

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WHAT'S FUELING FEDERAL INTEREST?
PUBLIC EDUCATION FINANCE IN THE U.S. 1995-2003

A Thesis

Presented to

The Faculty of the Department of Sociology

San Jose State University

In Partial Fulfillment

of the Requirements for the Degree

Master of Arts

by

Elise St. John

December 2005

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APPROVED FOR THE DEPARTMENT OF SOCIOLOGY

Wendy Ng 10/27/05
Dr. Wendy Ng, Professor Date

Peter Chua Oct 27, 05
Dr. Peter Chua, Assistant Professor Date

Preston Rudy 27 October 2005
Dr. Preston Rudy, Assistant Professor Date

APPROVED FOR THE UNIVERSITY

Phen I. Williamson 12/21/05
Associate Dean Date

ABSTRACT

WHAT'S FUELING FEDERAL INTEREST? PUBLIC EDUCATION FINANCE IN THE U.S. 1995-2003

by Elise St. John

This thesis investigates public education finance in the United States between 1995 and 2003. It expands upon the 1995 study by Odden and Monk which predicted federal revenues would not increase. The historical basis for the division of revenue share among federal, state and local sources is explored, as well as how an evolving economy may influence change. This thesis utilizes human capital theory, and corporatism and corporate elite theory to explain why an increased federal role in the financing of public education is expected to have emerged.

Research shows that federal level funding between 1995 and 2003 did increase. Human capital theory substantiates the intervention of government in education, while corporatism and corporate elite theory discuss the relationship between corporations and government, and how corporations influence public education. The research indicates that while a federal-level concern over an adequately educated workforce isn't new, the global economic framework is.

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INTRODUCTION

Public elementary and secondary education in America invokes much opinion, argument and theory, especially when it comes to how it is and ought to be financed. However, most educators, policy makers and the general public know little about how K-12 public education is actually financed (Odden and Monk, 1995). In a 1995 study titled, *The Story of the Education Dollar*, Odden and Monk examined education dollars as a basis of forming opinion on how to restructure education in the United States. They looked at the fundamental topics of revenue share, spending patterns, teacher salaries, instruction, administration, other services expenditures, and special education funding. Their study provided a basic analysis of these topics and offered suggestions for restructuring the financing of public elementary and secondary education in the United States.

This thesis examines Odden and Monk's findings on revenue sources. Referring to research utilizing the same survey data, it expands their study by exploring the most recent state-level education finance research available. This thesis examines Odden and Monk's prediction for future revenue share, situating the findings within the contemporary social and economic milieu. It also applies social and economic theoretical perspectives to buttress the hypothesis of this thesis. This research is of significance because recent federal legislation suggests a significant and fundamental shift in public education governance toward a

greater federal role (Cibulka, 2001; McGuinn, 2005; Robelen, 2005). Although the primary objective of this thesis is to expand upon Odden and Monk's 1995 study and assess their prediction, it also explores the significance of the global economy: Does increasing globalism and international competition increase federal interest in public education?

This thesis is organized into six sections. First it will explore education in the United States historically and examine the findings of previous research in a review of the literature. Next, three theoretical perspectives will be introduced and applied to this analysis of public education revenue share. The methods of analysis used in this study will follow the hypothesis. The results of the analysis will be presented, followed by the conclusion.

REVIEW OF THE LITERATURE

The History of Public Education in the United States: The Colonial Period to 1995

The education system in the United States was built, in practice and eventually ideology, on the notion of decentralization. During early European settlement of the continental United States, schools were formed in towns, often associated with churches. The Massachusetts Bay Colony was the first to require parents to teach their children reading and writing. It was also the first colony to require towns to establish schools and allow the use of property tax revenues to support these schools (Swanson & King, 1991). The Bay Law of 1642, followed by the Old Deluder Act of 1647, influenced current laws and belief systems about how and who should finance public schools (Swanson & King). The Old Deluder Act stated:

It is therefore ordered that every township in this jurisdiction, after the Lord hath increased them to the number of fifty householders, shall then forthwith appoint one within their town to teach all such children as shall resort to them to write and read, whose wages shall be paid either by the parents or masters of such children, or by the inhabitants in general (Tiedt, 1966, p. 14).

By 1700, there were twenty-six Latin grammar schools in the New England colonies. The schools were based upon the traditional curriculum established in England and were open to boys of all classes (Krug, 1966). The tuition was free, except for those considered nonresidents. Initially, these public

schools were funded by wealthier colonists. However, over time, revenues from local taxes and the rental of town lands were used to fund the schools (Krug).

As the nation moved toward independence, the authors of the U.S. constitution discussed the importance of an educated public (Teidt, 1996). Although they believed education to be important to the success of the new nation, they chose not to mention it specifically in the Constitution (Swanson & King, 1991; Teidt). Instead, by lack of mention, education fell under the Tenth Amendment of the Bill of Rights, which states that the authorities not explicitly delegated to the federal government were “reserved to the States respectively or to the people” (Swanson & King, p. 40). Among the many theories for why education was purposely omitted from the body of the United States Constitution, considered most plausible is that the authors of the Constitution did not foresee the complexity and enormity of education in America today (Teidt).

Despite lack of mention in the Constitution, from an historical and legal perspective there has been little argument that federal involvement in education is unconstitutional (Teidt, 1966). Even so, no federal financial support for education was suggested until 1773 when Colonel Henry Dickering proposed that surplus lands in the Ohio territory be sold and proceeds be divided among the states to support a variety of public services, including education (Garms, Guthrie, & Pierce, 1978; Teidt). His proposal did not pass, but a few years later,

the Continental Congress enacted the Land Ordinance of 1785 and the Northwest Ordinance of 1787, as it was then known (Garms et al). With these enactments, public lands in the Northwest were to be divided into townships comprising 36 sections of 640 acres each (Teidt). The proceeds from one section of every township were to be used for maintaining public schools. For the first time, federal-level interest in public education led to federally mandated financial support (Garms et al).

The Northwest Ordinance of 1787 affirmed the allocation of resources for education, stating that, "Religion, Morality, and Knowledge, being necessary to good government and the happiness of mankind, schools and the means of education shall forever be encouraged" (Urban & Wagoner, 1996, p. 79). Similar ordinances were passed when California, Utah, Arizona, and New Mexico became states (Garms et al, 1978). The sale of these lands and the income provided created resources for public education in challenging economic conditions. Although the responsibility for funding public education remained primarily at the local and, to some extent, the state level, these ordinances set the precedence for federal involvement in public education (Urban & Wagoner).

As the U.S. population increased and industrialization shifted people into urban centers, the rural system, which was relatively equitable, evolved into an urban system, which was much more inequitable (Swanson & King, 1991). The 1954 Supreme Court case *Brown v Board of Education* brought to the forefront the

issue of inequality in education opportunity by focusing on the inequities resulting from the differences in racial composition of schools (Ladd, Chalk, & Hansen, 1999). Although this landmark case did not focus upon education finance inequities, remedies to the problem did impact school finance by providing additional financial resources. Wise and Enrich argue that *Brown v Board of Education* helped to evolve future ideas about school finance equity (as cited in Ladd et al).

Although the federal government would emerge as most capable of funding issues of inequity, it passed its first major piece of education legislation on concerns of national defense and productivity. When the Soviet Union launched Sputnik, the first satellite, into space in 1957, the government responded with the passage of the 1958 National Defense Education Act (Garms et al, 1978). There was a widespread belief that American public schools were failing and that public education would have to be improved if America's scientific and technological lead was to be maintained (Urban & Wagoner, 1996). Although it is argued that this legislation failed to actually impact education at the school level, it did provide continual momentum for federal aid to education (Urban & Wagoner).

The "War on Poverty," declared by President Lyndon B. Johnson, was the next public issue to put the spotlight upon elementary and secondary education. It also signaled the beginning of a shift in legislation that would change the

federal role in public elementary and secondary education significantly (Garms et al, 1978). The 1964 Economic Opportunity Act, established in response to this national crisis, founded a separate agency within the federal executive branch known as The Office of Economic Opportunity (OEO) (Garms et al).

In 1965, the most substantial federal aid legislation package was passed with the Elementary and Secondary Education Act (ESEA). It appropriated the largest amount of federal funds and covered the broadest range of education functions (Garms et al, 1978). It also demonstrated that the federal government could play a role in school financing, curriculum, classification of students and teachers, and the placement of teachers and students in the classroom. In its original form, the ESEA authorized over \$1.2 billion, providing the momentum for the shift in federal share of total revenues from 4 percent in 1960 to 8 percent in 1970 (Garms et al; National Center for Education Statistics, 2001).

The primary purpose of the ESEA was to provide educationally disadvantaged students with remedial and compensatory services, including the well-known Title I services (Garms et al). The legislation also brought the issue of school finance inequity in the United States to attention. In general, public school systems are organized into local school districts which rely upon financing from local property taxes. But because property taxes are based upon property values that are unequally distributed across school districts and states, inequity is inherently built into the system (Ladd et al, 1999). The ESEA and

momentum from the Civil Rights Movement paved the way for additional discourse and legislation on the issue of inequity, although most of the legislative action on state level inequity took place at the state level (Ladd et al).

According to Guthrie et al, *Serrano v. Priest I* declared that “the quality of education may not be a function of wealth of the state as a whole” and instigated many discussions on the equity of state school financing systems (as cited in Ladd et al, 1999, p. 8). This 1971 California case resulted in the first major school finance reform legislation. It argued that education is a fundamental right and cannot be governed by the wealth of a student’s parents or neighbors (Timpane, 1978). The courts found that large disparities among school district revenues per pupil resulted from the state system of financing education almost entirely from local property tax. Following *Serrano v Priest I*, thirty-two states filed fifty-two actions, with federal court decisions made in three states and state court decisions in six more states, making the way for major reform of many state school finance systems (Timpane).

On October 17, 1979, a cabinet-level Department of Education was created (Radin & Hawley, 1988). Although there were doubts about how significant and powerful the newly formed Department of Education would be, it did give full departmental status to the federal presence in education (Urban & Wagoner, 1996). The election of President Ronald Reagan, however, threatened the future of the newly established department. Reagan’s overarching domestic agenda

involved a less intrusive government. The administration appealed for cuts on federal education spending, and if possible, an end to federal level funding completely (Urban & Wagoner). Reagan's three major education goals were to abolish the federal Department of Education, give tax credits for tuition paid by parents whose children attended private schools, and return prayer to public schools (Spring, 1998; Urban and Wagoner). By returning power to the states through block-grants, the administration intended to cut back federal aid to education (Cibulka, 2001). The Reagan administration's educational proposals were never enacted into law, but the federal share of total revenues allocated to public education fell from 10 percent in 1980 to 6 percent in 1990 (Urban & Wagoner, 1996; National Center on Education Statistics, 2001).

Reagan's attention was turned to the issue of educational excellence when a report by the National Commission on Excellence in Education was published in April of 1983. *A Nation at Risk* brought to national attention perceived international risks resulting from America's inadequate educational system. It stated:

Our nation is at risk. Our once unchallenged preeminence in commerce, industry, science, and technology innovation is being overtaken by competitions throughout the world (National Commission on Excellence in Education, 1983, as cited in Harris, 2004, p. 37).

The report placed the United States within the context of a competitive world economy, comparing its students to those in Japan, Korea, and Germany

who were scoring higher on educational achievement measures in several subjects (Urban & Wagoner, 1996). Following the report, Reagan did not allocate additional funds, but by 1987, the administration began to alter its objective of reducing federal spending in education (Wong & Nicotera, 2004). The adequacy of American public education had become an issue.

President George Bush promised to focus upon education, having campaigned on the issue of educational improvement. Like Reagan, Bush offered much rhetorical support for education, but provided little financial support (Urban & Wagoner, 1996). The America 2000 program illustrated the Bush administration's goals for education, which included major school reform, holding schools accountable and improving international competitiveness through national standards in basic subjects (Urban & Wagoner). To avoid tension among those who thought schools should be locally controlled, the new standards would be voluntary, not mandatory. Even though the implementation of national standards was a new idea, it lacked significant financial support and specific suggestions for its execution (Urban & Wagoner).

President Clinton's first education plan, Goals 2000: Educate America Act, built upon America 2000. The major differences between Bush and Clinton's programs were on the subjects of school prayer and tuition tax credits, both opposed by Clinton. The Improving America's Schools Act (IASA) of 1994 further increased the momentum for quality and standards in education by

increasing accountability, strengthening standards, improving instructional practices, and raising expectations for the assessment of student performance (Wong & Nicotera, 2004). But, according to Urban and Wagner (1996), despite the changes in administration, educational improvement efforts changed little from the 1980s to the 1990s. What did increase, however, was talk of “productive employment,” “first in the world in science and mathematics,” and “global economy” (Spring, 1998).

Contemporary Issues of Public Elementary and Secondary Education: 1995 to 2005

The most significant education legislation of this era did not occur until 2001, however, significant social and economic changes preceding it impacted public education in America. The new global economy emerged, spurred by the development of new technologies, bringing about revolutions in areas such as the organization of work, the production of goods and services, and relations among nations (Carnoy, 1999). While the global economy emerged prior to 1995, this year did signal ambitious hiring by companies in the technology sectors of the United States (Takahashi, 1995). It also brought increased communication and bargaining between corporate and government leaders (Molina & Rhodes, 2002).

Predictions of an upcoming electronic revolution and the need for skilled workers began to emerge. Newspapers reported of professors of engineering schools getting phone calls daily from companies seeking graduating students to

hire. A 1995 poll by the Mercury News in San Jose, California, found that more than fifty high-tech companies planned to increase employment by approximately 25 percent in 1995, resulting in the hiring of more than 10,000 people in that year alone (Takahashi, 1995). But many employers were concerned they would not find enough skilled workers fast enough to meet their hiring needs (Takahashi).

By 1998, a study by the Information Technology Association of America reported that 346,000 jobs remained unfilled in the information technology industry (Ewell, 1998). Corporate executives urged Congress to increase the number of visas for international skilled workers so that U.S. competitiveness in high technology would not be jeopardized. Their wish was granted, but some in Congress began calling for increased commitment to public education by industry and government (Ewell).

In July 2000, Alan Greenspan, speaking to the nation's governors, said it is "critical that the quality of education in elementary and secondary schools be improved" (as cited in Brimely & Garfield, 2002, p. 2). Greenspan explained:

Even the most significant advances in information and technology will not produce additional economic value without human creativity and intellect. Certainly, if we are to remain preeminent in transforming knowledge into economic value, the U.S. system of education must remain the world's leader in generating scientific and technological breakthroughs and in preparing workers to meet the need for skilled labor...Education must realize the potential for bringing lasting benefits to the economy (as cited in Brimely & Garfield, p. 2).

In 2001, the federal government responded to these calls for the improvement of America's public schools by the enacting the No Child Left Behind Act (NCLB). The primary focus of this legislation was to improve the academic achievement of *all* students, a shift from its historical focus on disadvantaged students (Robelen, 2005). NCLB also increased state accountability by requiring states to clearly define standards for academic proficiency, and teacher and paraprofessional quality standards. It also mandated annual testing in third grade through eighth grade and provided supplemental services and school transfers for students in schools recognized as low performing (Wong & Nicotera, 2004).

According to McGuinn (2005), the NCLB act signified the most significant increase of the federal role in education since the ESEA of 1965. While states have historically embraced federal education funding, they have ardently fought to maintain their policymaking authority over schools. The significance of NCLB lies in the requirement that all states adopt standards and testing schedules, that they follow federal timetables for reaching student proficiency, and that they face penalties for failing to do so (McGuinn, 2005).

NCLB funds are conditional, meaning states must meet the requirements set forth if they are to receive the funding (McGuinn, 2005).

And the funds are substantial. They represented an approximate 49 percent increase in federal education spending in the first year (McGuinn). Although there has been opposition among states to comply with NCLB's timetable, it is difficult for states to turn down the millions (in some cases hundreds of millions) of dollars in federal funds (McGuinn).

The Governance and Financing of Public Education in the United States

According to Swanson and King (1991), five primary levels of educational governance have evolved in the United States. The primary level of authority is the state, which is represented by legislatures, governors, state boards of education and superintendents, and state departments of education (Swanson & King). This level is primarily responsible for establishing basic policy, including how schools will be financed. The local school district is the second level of authority, which is responsible for implementing state policy. The third level is the school which is the basic operating unit, yet because it is controlled by the policies formulated at higher levels, is given little freedom of choice (Swanson & King). Relatively new is the fourth level, referred to as the intermediate unit or district, which was created to provide services to the school districts of a region. The fifth level of authority is the federal government, whose power is exercised when Congress passes legislation in the interest of general welfare, national defense, or the protection of civil rights that impacts schools (Swanson & King).

Because local, state, and federal revenues are considered in this thesis, a further analysis of these levels will be explored.

The Governance and Financing of Public Education at the Local Level

The United States was sparsely populated and agrarian when formal public education was established, so support for education logically fell at the local level. In fact, limited communication and resources made control of education at the state level not practical. As a result, the local school district emerged to construct and manage schools (Swanson & King, 1991). Cubberly wrote about the local education agency:

As an administrative and taxing unit it was well suited to the primitive needs and conditions of our early national life. Among a sparse and hard-working rural population, between whom intercourse was limited and intercommunication difficult, and with whom the support of schools was as yet an unsettled question, local control answered a very real need. The simplicity and democracy of the system was one of its chief merits. Communities or neighborhoods which wanted schools and were willing to pay for them could easily meet and organize a school district, vote to levy a school tax on their own property, employ a teacher, and organize and maintain a school...On the other hand, communities which did not desire schools or were unwilling to tax themselves for them could do without them, and let the free-school idea alone (as cited in Swanson & King, 1991, p. 41).

Local education agencies worked well for those areas that were willing and able to manage education, but they didn't provide leadership or resources for those areas unable or unwilling to provide public education (Swanson &

King, 1991). As a result, inequities within the school systems began to emerge and become more severe in the nineteenth and twentieth centuries. In response to this problem, state boards of education were created, with New York being the first in 1812 (Swanson & King).

Today, local revenues for public education are almost entirely from property taxes, with a small proportion coming from local sales and income taxes. Local education agencies also receive funds from state and federal sources (Ladd et al, 1999). It is the local school district's responsibility to determine how much to spend per pupil, although it has become increasingly common for voters to place caps on how much can be spent from local sources, and sometimes state sources (Ladd et al).

The Governance and Financing of Public Education at the State Level

States impose authority over public education through general statements in their constitutions (Swanson & King, 1991). Each state uses different formulas and rules for using publicly collected revenues to pay for public education (Ladd et al, 1999). These formulas and rules, referred to as school finance systems, are established in state law and often supplemented by regulations established by the state education agencies (Ladd et al).

State revenues are generated from general tax and other revenues, mostly from sales and income taxes (Ladd et al, 1999). The states use different funding mechanisms to distribute revenues. As of 1999, thirty-three states use foundation

programs, which limit a state's responsibility to providing the minimum level of school support (Wong, 1999). According to Wong (1999), in many cases, the foundation level is not sufficient to provide adequate school services. Eight states use resource equalizers, which do not set a fixed dollar limit on state support. Rather, it specifies a state share of local spending or equalizes district tax revenues allocated to education finance (Wong). In other words, state aid guarantees an equal amount of local tax revenue despite different levels of tax levy. Eight states use a combination of the two by supplementing the foundation with some kind of equalizer (Wong).

States have also taken on the role of policymaker as local governments have experienced financial and management crises stemming from teachers' strikes, retrenchment practices, deteriorating physical stocks, and political opposition to raising revenues for public education (Wong, 1999). Their policy priorities include addressing inter-district disparity in spending by leveling up spending in poor districts, as well as issues such as teacher certification, textbook policy, and graduation requirements (Wong).

As noted previously, historically, local education agencies held the primary responsibility of financing public education in the United States. Yet, a reversal in fiscal responsibility occurred between state and local governments during the late 1970s and 1980s. For the first time, state share of total revenues allocated to public education was higher than the local share, and since, has

either exceeded or remained near fifty percent of all revenue sources (Wong, 1999).

Along with an increased role come divergent philosophies on the role states should play in financing public education (Wong, 1999). Some argue that given the state's increased role in financing public education, it should take over many of the federal level functions. This philosophy was popular in the Reagan administration (Spring, 1998). A second perspective is skeptical of the state's commitment to disadvantaged students in urban schools, pointing to suburban controlled state capitals and a widening gap between urban and suburban school demographics and needs (Wong).

The Governance and Financing of Public Education at the Federal Level

There, too, is great debate about the role of federal government in educational policy and finance, often shaped by the differing views of federalism (Swanson & King, 1991). Those favoring decentralization argue that local education agencies are best at providing for efficiency and responsiveness because local officials are held accountable to constituencies who pay for and use the educational services. Others promoting centralization argue that the leadership from the federal government is required if education quality is to be insured (Swanson & King). This section discusses the types of legislation the federal government has passed to finance public education. The types of legislation passed and the funding allocated to federal programs illustrate

national interests and shifting priorities. It also demonstrates how the federal government utilizes public education to address perceived social and economic concerns (Swanson & King).

Despite no mention of education within the U.S. Constitution, because of its power to make laws and appropriate funds, Congress directly influences national educational policy. According to Swanson and King (1991), legislative acts by Congress fall into six major categories: strengthening national productivity, improving defense and international relations, improving nutrition and health, expanding educational opportunities, strengthening school programs and improving facilities, and advancing research and development.

Vocational education was the first direct federal assistance made to public schools that fell into the category of strengthening national productivity. As the nation entered WWI, the Smith-Lever Act of 1914 and the Vocational Education Act of 1917 allocated funds to the training of teachers in agriculture and home economics. By granting states funds for trade-related programs in high schools, these Acts also addressed the concerns of industries that required more skilled workers (Swanson & King, 1991).

The expansion in federal aid to education continued throughout the century. The Vocational Rehabilitation Act of 1918 and the Smith-Bankhead Act of 1920 were enacted in response to demands to maintain a qualified work force, reduce unemployment, and ensure national preeminence (Swanson & King,

1991). The Federal Emergency Relief Administration, focusing upon adult education and vocational rehabilitation, was created in 1933 in response to unemployment during the Great Depression. Likewise, the Public Works Administration was created, also in 1933, to hire workers to construct public building such as schools (Swanson & King). The Civilian Conservation Corps, which ran between 1933 and 1943, provided opportunities for work and education by restoring depleted natural resources and constructing dams and bridges (Swanson & King).

After WWII, the Serviceman's Readjustment Act of 1944, also known as the GI Bill, compensated veterans for their service in the war. It functioned to ease veteran's reentry into an evolving workplace by providing them opportunities to attend public or private colleges and universities (Swanson & King, 1991). It also prevented an unemployment problem, as factories retooled from weapons production (Swanson & King). The GI Bill not only strengthened the quality of the work force and improved national productivity but it also illustrated the federal government's capability of effectively providing for education (Swanson & King).

Between 1960 and 1984 new federal legislation focusing upon vocational education arose in response to unemployment and poverty (Swanson & King, 1991). For example, the Comprehensive Employment and Training Act (CETA) of 1973 created employment and training opportunities for unemployed and

economically disadvantaged people, and the Perkins Vocational Education Act of 1984 made vocational education available on a nondiscriminatory basis (Swanson & King).

By the mid 1980s, focus upon strengthening the nation's productivity expanded federal assistance within several curricular areas. The Education for Economic Security Act of 1984 sought to promote careers in mathematics, science, engineering, computers and foreign languages, as well as improve the quality of instruction in these fields (Swanson & King, 1991). Partnerships among the business community, institutions of higher education, and elementary and secondary schools were encouraged and the newly established Presidential Awards recognized teaching excellence (Swanson & King). The 1988 Education and Training for American Competitiveness Act offered additional grants to improve elementary and secondary education in mathematics, science, foreign languages, and technologies out of a concern for maintaining preeminence in international business (Swanson & King).

Swanson and King (1991) point out that while federal legislation described above did coincided with wars, national crises cultivated, rather than caused, expansions in federal support of education. Such expansions fell into the second major legislative category of improving defense and international relations. The cold war illustrates this, as goals to strengthening national defense and preeminence through education became obvious. The National Science

Foundation was created in 1950 to “promote the progress of science; to advance the national health, prosperity and welfare; to secure the national defense; and for other purposes” (Swanson & King, p. 201). As previously discussed, in 1958, the National Defense Education Act (NDEA) was enacted in response to the Soviet Union’s launch of its Sputnik satellite. With the goal of maintaining the nation’s position as a world power, the legislation emphasized identifying potentially high achievers in elementary and secondary schools and tracking these students into advanced placement and honors classes. The Education for Economic Security Act of 1988 addressed similar issues, again with the goal of strengthening the nation’s economy (Swanson & King).

Although the federal government did fund a number of post secondary institutions that were created in direct response to defense interests, it also sought to improve international relations (Swanson & King, 1991). For example, the Fulbright Act of 1945 and the Information and Education Exchange Act of 1948 created exchange programs for elementary, secondary, and higher education faculty so that knowledge and skills between the United States and other countries could be shared (Swanson & King).

The federal government’s interest in nutrition and health, the third major legislative category, has been maintained through legislation financing school lunches, drug abuse prevention, and asbestos removal (Swanson & King, 1991). Concern for children’s nutrition led to the 1935 Agricultural Adjustment Act and

the 1946 National School Lunch Act. It also helped relieve oversupplies of farm produce (Swanson & King). The 1954 School Milk Program Act and the 1966 Child Nutrition Act expanded the federal role in providing for nutrition and health in the public schools (Swanson & King).

Expanding educational opportunities was the fourth major legislative category. The first examples of the federal role in expanding education opportunities were the land grants, which enabled schools to form in territories (Swanson & King, 1991). Yet, it wasn't until the 1960s and 1970s that the federal government placed a priority upon expanding the social and economic positions of disadvantaged groups. Programs assisting Native Americans, special education students, the educationally deprived, and students whose native language is not English were funded through large increases in federal financial assistance (Swanson & King).

Strengthening school programs and improving facilities was the fifth major legislative category undertaken by Congress. Financial assistance for school programs and facilities encouraged schools to develop new resources and make use of new technologies (Swanson & King, 1991). For example, the Higher Education Act of 1965 made funds available for the development of institutions, the financing of community education and continuing education programs. It also established the Teacher Corps and fellowships (Swanson & King).

Several federal programs enacted in the 1980s sought to improve state and local education by minimizing federal presence (Swanson & King, 1991). The federal government argued that the local government was most suited to determine how best to use federal funds for school improvement activities. The federal government's approach was to consolidate categorical aid programs through the use of block grants, and did so through the Education Consolidation and Improvement Act (ECIA) (Swanson & King).

The last major category Congress became involved with was the advancement of research and development. The initial role of the Department of Education in 1867 was to collect and disseminate statistics (Swanson & King, 1991). Even now that the Department of Education plays a much larger role, it still coordinates and finances educational research and development on topics such as teaching and learning, school organization and leadership, effective means of reaching objectives, equity and finance programs, and uses of technologies (Swanson & King).

The Division of Revenue Sources

In the United States, total revenues allocated to public elementary and secondary education have increased from \$2.1 billion in 1930 to \$440 billion in 2003 (National Center for Education Statistics, 2001; Hill & Johnson, 2005). These revenues are provided from local, state, and federal sources, and largely paid for by funds diverted from the private sector via taxation. Historically, local

revenues have provided the largest share of all revenue sources. In 1930, local revenue sources accounted for 83 percent of all revenue sources while state revenue share accounted for 17 percent. Federal revenues accounted for less than 1 percent of all revenue sources. By 1960, local revenue share decreased to 57 percent while state revenue share increased to 39 percent. Federal revenue share increased to 4 percent (Odden and Monk, 1995; Ornstein, 2001; National Center for Education Statistics, 2001).

In 1990, local and state revenue sources were equal, each accounting for 47 percent of total revenues. The federal revenue share had grown to 6 percent (Odden and Monk, 1995; National Center for Education Statistics, 2001). By 1995, the year Odden and Monk's study was published, local revenue share was 46 percent and state revenue share was 47 percent. Federal revenues accounted for 7 percent of all revenue sources (Johnson, 1997).

The Story of the Education Dollar

Odden and Monk (1995) argue that public education in America needs to be reorganized and suggests transferring more authority, responsibility and accountability to the local levels of education. They appeal to schools to behave more like producers than consumers so that public investment in education can be recovered. Odden and Monk purport there are many theories on the topic of education finance, but little understanding of the fiscal figures on which these

theories are based. This thesis focuses upon their findings on revenue share for public elementary and secondary education.

Odden and Monk (1995) report public education revenue share from federal, state, and local sources since 1960, identifying three trends during three different time periods: 1960 to 1980, 1980 to 1990, and 1990 to present (1995). During the first time period, 1960 to 1980, they observed a rising federal and state revenue share and a declining local share. According to Odden and Monk, after this period, trends in revenue share for education dollars became very complex. The drop in federal and state revenue share and an increasing local revenue share makes future trends uncertain, and positions local education agencies as the leading financers of public education once again.

Legislation in Colorado, Michigan, Oregon and Wisconsin that limit property taxes suggest to Odden and Monk (1995) that opposition to increasing local revenues for education may exist. While similar resistance exists at the state level, revenues from a growing national economy and tax increases from the 1980s and 1990s would allow states the ability to maintain their leading role in public education finance. Odden and Monk summarize their analysis of revenue share for public education by predicting that federal revenue share would not likely increase beyond the 7 percent it held in 1995. They expressed uncertainty over the state and local revenue share.

THEORETICAL EXPLANATION

While the overall percentage of federal revenues remains comparatively small when weighed against local and state revenue sources, the federal government has acquired disproportionate power in influencing priorities and politics at the local and state levels. It has also created a political rationale for its increasing involvement in public education (Cibulka, 2001; McGuinn, 2005). Radin and Hawley (1988) argue that increasing federal revenues equates to increasing influence and interference. As the federal government seeks to ensure that money is spent according to legislative intent; that funds are accounted for appropriately; that administrative rules and standards of performance have been established, they increase their influence. According to Bailey and Mosher, “whenever the Federal government (or any level of government for that matter) appropriates money for any purpose, certain types of control are inevitable” (as cited in Radin & Hawley, p. 13).

Human capital theory, and corporatism and corporate elite theory offer theoretical explanations for why the federal role in public education is expected to increase despite its historically decentralized presence.

Human Capital Theory

Human capital theory, also referred to as Neocapitalist thought, emerged from the study of the relationship between education and economic growth. In contrast to previous economic analyses, human capital theory treats education as

an investment rather than a consumption (Swanson & King, 1991). Under human capital theory, education is considered a social investment that prepares students, thought of as human resources, to contribute to economic growth (Spring, 1998). Led by Friedrich von Hayek, this ideology differs from previous 19th century philosophies. While 19th century theorists such as Adam Smith and John Stuart Mill supported laissez-faire economic policies urging limited government economic intervention, Neocapitalists rejected these policies, instead calling for active government intervention to protect the free market (Spring).

Hayek argued:

There is, in particular, all the difference between deliberately creating a system within which competition will work as beneficially as possible and passively accepting institutions as they are. Probably nothing has done so much harm to the liberal cause as the wooden insistence of some liberals on certain rough rules of thumb, above all the principle of laissez-faire (as cited in Spring, p. 123).

Hayek, however, argues for the intervention of government, not the rule of government, and called for a government advised school curriculum that promotes free market ideas, not those of collectivism (Spring, 1998). A collective government results in economic and social failure because individuals have less power to make their own choices. Material and social progress results from the freedom of individuals to make choices. When individuals can choose the things they value, they regulate the market, and undercut the power of an exploitative government and its bureaucracy (Spring). Another problem with collectivist

governments is determining the price or value of goods (Spring). Since pricing determines the social value of goods, it should be left up to a free market, or individual choice. In fact, it is individual choice in an open market that will create a favorable social order. According to Hayek, the greatest material abundance and human happiness come from scientific and technological advances, which emerge from freedom and individualism (Spring).

According to Hayek, the government must support public schools so that educated students can make good market decisions that will maintain free markets. But some argue that educational policies based upon human capital theory create situations where the individual worker is manipulated by government policy (Spring, 1998), and where corporations dominate the decision-making process (Fusfeld, 1972).

Corporatism and Corporate Elite Theory

Corporatism has undergone many transformations, but has recently reemerged after having lost its status along with the Keynesian economic model in the early 1990s (Molina & Rhodes, 2002). Cawson defines corporatism as:

A specific socio-political process in which organizations representing monopolistic functional interests engage in political exchange with state agencies over public policy outputs which involves those organizations in a role which combines interest representation and policy implementation through delegated self-enforcement (as cited in Molina & Rhodes, p. 321).

Most economists and other social scientists agree that market regulation, to some degree, is necessary for the continued survival of a business system,

especially in a globalizing economy (Domhoff, 1998). In fact, globalization may actually increase the role of the federal government in market policies now that areas such as patents, intellectual property, and quality of merchandise must be regulated (Domhoff). Molina and Rhodes (2002) argue that the mid-1990s brought on new patterns of corporatist behavior signified by routine bargaining between governments, employers and trade unions, and increasing intervention of the government in the advancement of corporations.

The new global economy has also resulted in increased competition among nations in an increasingly “intertwined international economy” whereby the nation-state focuses on economic policies that improve global competitiveness (Carnoy, 1999, p.41). As nation-states begin to act more as promoters of economic growth for their national economies than as protectors of a national identity, the business climate becomes increasingly important (Carnoy, 1999). In fact, Fusfeld (1972) argues corporations have become so important to the preservation of the economy, that governments must safeguard them.

But the need is reciprocal. According to Galbraith, postindustrial economies create “technostructures” within corporations that require the expertise of government authorities to operate effectively (as cited in Kowalewski, Leitko, & Leonard, 2003). Corporations must also rely upon government to invest in human capital to ensure an adequately trained and educated workforce (Fuseld, 1972).

Zadja (2004) maintains that effective business and industry partnerships may result in educational institutions reflecting the competency standards of profit-driven corporations. Carnoy (1999) argues that is already happening. Government is placing an increasing emphasis upon testing and standards and the measurement of knowledge production, as they become pressured to improve the standard level of education in the work force. This standards model of educational achievement is based upon competition similar to that of economic competition (Spring, 1998). Both Carnoy (1999) and Zadja (2004) contend that these actions result in greater centralization of government. But as corporate and government decision-makers develop more common shared interests, their interdependence becomes more explicit, and to some, problematic.

Corporate elite theory contends that major policy change is directed by the owners and directors of the largest corporations (Jenkins & Eckert, 2000). While these small circles do not have authority per se, they are capable of initiating and manipulating change; and use public education as a medium for doing so (Mills, 1956). Mills (1956) maintains that the primary purpose of public education has shifted from the political to the economical, where its function is to train people to meet the demands of business.

Kowalewski et al (2003) provides the example of the revolving door, or the movement of high-level bureaucrats into larger corporations, to explain how

corporations influence changes in policy. Both public and private sectors argue that this practice, which has become increasingly common in the twentieth century, allows for the exchange of much needed political and economic expertise and enhances managerial effectiveness (Kowaleski et al, 2003).

Corporate elite theorists, however, argue that circulating private and public elite results in a less competitive marketplace, as markets become distorted from a more cohesive, rather than fragmented elite (Kowalewski et al). Kneier, Morrow and Nadel argue that as corporate elites capture the political system, they gain excessive influence over public policy, weakening public interests in the pursuit of private interests (as cited in Kowalewski et al).

HYPOTHESIS

Human capital theory would likely argue that increasing global competition resulting from the current global economy will result in the federal government's increased interest in public education adequacy. By intervening through the enactment of education legislation and the investment in public schools, the federal government may maintain and improve the nation's economic growth. Better educated students will make good market decisions, thereby regulating the market and diminishing the power of the government.

Corporatism and corporate elite theory would likely agree that the global economy will increase the federal government's role in public education governance and finance, but they would also indicate the relationship between corporate and government elite. Concerns over maintaining a competitive edge in a global economy creates a dual interest among government bureaucrats and corporate elite. The corporate elite rely upon public education to train the workforce that will, in turn, meet their private interests of maintaining and increasing their financial wealth. Influencing policy is more cost effective at the national level than the state level (Cibulka, 2001), so corporations utilize practices such as the revolving door to influence federal level legislation (Kowalewski et al).

Since the federal government is increasingly reliant upon corporate success to maintain its position in the global economy, the federal government

intervenes, by enacting legislation and increasing funds, despite its historically decentralized position. These resources come with requirements, however. Utilizing language and practices successful in corporations, the government applies the same competency standards used by the profit-driven corporations. As a result, the federal government's role in public education becomes more centralized than in previous history.

Guided by human capital theory, and corporatism and corporate elite theory, and a review of past literature, it is hypothesized that:

H₁: Federal revenue share is more likely to increase between 1995 and 2003 than decrease.

Although the direction of local and state revenue share is not hypothesized, the division of these revenues will be included in the results. The examination of these revenues may provide additional information that will aid in the explanation of findings.

METHODS

This thesis utilizes previously published research to examine the hypothesized increase in federal revenue share. The research consulted employed the same survey data used by Odden and Monk, the National Public Education Finance Survey (NPEFS). The NPEFS is an annual survey of the Common Core of Data (CCD) series and is administered by the National Center for Education Statistics (NCES), a branch of the Institute of Education Sciences in the U.S. Department of Education (Hill & Johnson, 2005). It is used to collect state-level finance data for the fifty states, the District of Columbia, and the five outlying areas (American Samoa, Guam, Northern Marianas, Puerto Rico, and Virgin Islands) (Hill & Johnson, 2005).

To measure the hypothesized increased in federal revenue share, national revenue share results were analyzed from research conducted for years 1995 through 2003.

RESULTS

According to Johnson (1997), federal share of all revenue sources was 6.8 percent in 1995. Federal revenue share decreased slightly in 1996 to 6.6 percent, where they remained in 1997 (Johnson, 1998, 1999). By 1998, federal revenue share had returned to 6.8 percent (Johnson, 2000). In 1999, federal share of all revenue sources had increased to 7.1 percent (Johnson, 2001); it increased again in 2000 to 7.3 percent (Johnson, 2002). In 2001, federal revenue share remained at 7.3 percent of all revenue sources (St. John & Johnson, 2003). Beginning in 2002, federal revenue share began to increase from 7.9 percent in 2002 to 8.5 percent in 2003 (Cohen & Johnson, 2004; Hill & Johnson, 2005).

To measure the hypothesis, percentage change between 1995 and 2003 was analyzed. In 1995, federal revenue share toward public elementary and secondary education was nearly 7 percent of total revenues. State revenues accounted for almost 47 percent of all revenues while local revenues accounted for over 46 percent of all revenues (Johnson, 1997). By 2003, the division of these funds had shifted so that federal revenue share was almost 9 percent of all revenues sources (an increase of approximately 2 percentage points). State revenues accounted for almost 49 percent of revenues (an increase of approximately 2 percentage points) and local revenues accounted for nearly 43 percent (a decrease of approximately 3 percentage points).

CONCLUSION

The results of this study support the hypothesis that federal revenues experienced an increase in revenue share for public elementary and secondary education between the years 1995 and 2003 (H_1). The results also show that the federal share of public elementary and secondary education increased beyond 7 percent, which Odden and Monk predicted it would not. In 1995, when Odden and Monk published their study, the economy had just emerged from a recession and corporations were first signaling their intent to increase hiring. Widespread discourse on the global economy was beginning and adequacy in public education was becoming increasingly important. But the convergence and urgency of these issues that would fuel corporate and federal interest could not be predicted; nor could their impact on the governance and financing of public education.

It should be noted that federal revenue share fluctuated by approximately ± 0.2 - 0.3 percentage points between 1995 and 2001. It wasn't until 2002 that larger increases in federal revenue share were observed, one year after the NCLB legislation was enacted. The literature identified changes in the economy beginning in the mid-1990s. Human capital theory, and corporatism and corporate elite theory offer suggestions for why the federal government would increase its intervention in public education, but they don't offer explanations for *when* the government would intervene.

As discussed previously, the Reagan administration did not increase its funding for public education until 1987, four years after *A Nation At Risk* was published. Is this an indication of bureaucratic snares that result from public education being financed at the federal level, or does it simply take time before the corporate elite can communicate their needs in a way that motivates government to mobilize new legislation? Human capital theory, and corporatism and corporate elite theory don't address these questions.

Another shortcoming to this study is the lack of more recent data. While it is expected that the federal levels of revenue share will continue to increase as long as the government and corporate elite remain concerned about the adequacy of public education, what will happen to the state and local revenue shares? Research shows that state revenue share was increasing until 2002, when it began to decrease (Johnson, 1997, 1998, 1999, 2000, 2001, 2002; St. John & Johnson, 2003; Cohen & Johnson, 2004; Hill & Johnson, 2005). Will this continue? If so are increased federal funds an explanation for this decrease? Local revenues declined each year over the nine years examined in this thesis (Johnson, 1997, 1998, 1999, 2000, 2001, 2002; St. John & Johnson, 2003; Cohen & Johnson, 2004; Hill & Johnson, 2005). If state share of total revenues continue to decline will local revenue share increase to compensate? And how might this shape society?

Discussion of public education finance does not inherently lead to discussion of sociological issues like social class awareness and mobility, yet

shifts in its financing and the presence of corporate elite do have larger social implications that need to be explored. For example, it has long been argued that public education is best coordinated and managed at the local level. But as discussed in the literature, inequities in local resources result in inequitable funding of public education. Over the last fifty years, the federal government has provided categorical aid to compensate disadvantaged students, but in its pursuit of adequacy, will equity now take a back seat? Motivated by corporate elite's profit-driven goals, will the federal government withdraw equalizing funds in favor of funds promoting skills needed in the workplace, and if so, how might this impact American society?

It is likely that an increased corporate and federal role in public education will lead to increased inequity in the classroom and in society at large. U.S. corporations, while successful in the marketplace, do not promote equity globally so it is difficult to conceive they will promote equity domestically. For example, the current corporate demand for a better educated workforce could result in the emergence and reemergence of inequitable education practices. Previously, students have been tracked so that top students could be identified and cultivated. While this practice might allow educators to focus their efforts upon students showing most promise, it neglects a large percentage of the population and increases the entrenchment of students within their socioeconomic class. If public education is capable of constructing a productive,

educated workforce, then certainly public education could also be charged with creating a more equitable society where race, class and gender are not primary indicators of success.

But because the federal government is increasingly reliant upon corporations to maintain its economic global hegemony, corporate values will likely become the standard paradigm. Public education, ever important to the continued competitiveness of corporations, will be forced to promote the principles of economic success as corporate values intrinsically infiltrate the school system. These corporate values take the form of standardized tests, and bottom-line and results oriented thinking. Teachers and local administrators must create students that meet the criteria valuable to corporations. While this may create a workforce capable of meeting the nation's economic needs, it may result in loss of creativity and fundamental love of learning, and the implications of these are much more difficult to measure.

In a knowledge-driven economy, corporations will likely promote the investment of resources where they may reap the best return. To identify top students, standardized tests will be employed. Not only do these tests identify promising students, they also provide seemingly tangible measures for calculating return on investment. But because funds are conditional upon student performance, teachers must teach content that will improve students' scores on these standardized tests. Skills such as critical thinking are abandoned,

and if taught, reserved only for the best and brightest resulting in a large population that cannot think critically. Students not armed with critical thinking skills will be at a disadvantage. Not only will they be left to fill the lower paying service jobs, they will not be capable of questioning their position in the world. If students are unable to think critically about their social world, they will become adults unable to place their personal issues within the context of larger social milieu. As C. Wright Mills (1959) stated so well, they will not possess the “quality of mind essential to grasp the interplay of man and society, of biography and history, of self and world (p.4). As the federal share of public education increases, it is imperative that the government address issues of equity *and* adequacy, for it is unlikely that the corporate elite will be concerned with issues of inequality.

How will the division of public education finance shift in the future? Carnoy (1999) predicts that education will continue to be financed by the federal government as long as the federal government succeeds in improving education, *equitably*. If it fails to do so, however, it will lose influence. Even if it requires additional spending on education, Carnoy (1999) maintains that competitiveness-driven reforms that aim primarily to improve economic productivity by improving the “quality” of labor will likely continue. So too will federal intervention as the government determines how globalization will impact education.

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