



Reflections on School District Consolidation in Michigan

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In recent years, Michigan has seen a great deal of discussion of consolidation of school districts. In this brief essay, I will not attempt to have the final word in that debate. I will not reach a definitive conclusion about whether any particular set of districts should be consolidated. Indeed, I hope to make clear that it is *impossible* to come to a definitive, airtight conclusion that is beyond controversy. School district consolidation, like so many other issues of public policy, is *inherently* controversial. This is because the decision of whether to consolidate does not rest solely on dispassionate analysis of data. Inevitably, the decision must also be based on values. Thus, even if we have all the data we could possibly desire, and even if we analyze those data perfectly (a tall order indeed), reasonable people can still reach different conclusions, because they have different values.

Economists have an established framework for thinking about any policy question (such as the question of whether two or more school districts should consolidate). We begin by trying to identify all the benefits of the proposed action, and then we do our best to quantify those benefits. Then we try to identify all the costs of the proposed action, and we do our best to quantify those costs. Finally, we put them together, in an attempt to see whether the benefits outweigh the costs. If the benefits outweigh the costs, then the action should be undertaken. If not, then it's best not to do it.

In discussions of consolidation, the most frequently cited benefit is the reduction

in expenditure that might occur when two or more districts are merged. If we can provide the same educational outcomes while spending fewer dollars per student, that is a good thing (all else equal). The costs of consolidation that are cited most often are the loss of local control of education, and possibly the loss of institutions that have helped to shape the identity of the local community.

This description of the salient benefits and costs has been very brief. Nevertheless, it raises a host of questions. Perhaps the biggest of these questions is how to value local control and local identity. Clearly, the answer will depend on the values of the person who is making the evaluation. I will provide some thoughts, based on my own values. But once again I must emphasize that other people, with other values, could reach different conclusions.

Historical Background

Sometimes, as I listen to the debates about school consolidation, I have the strange feeling that the conversation is taking place in a vacuum, with no reference to history. Sometimes, it sounds as if proponents of further consolidations are unaware of the long history of school consolidation that has already taken place. In fact, in the 20th century, the people of the United States (including Michigan) witnessed a wave of school consolidations of astonishing magnitude. In Michigan, thousands of districts had already been eliminated by 1950, by which time the state had about 4900 districts. The number of districts

decreased to about 2100 in 1960, and to about 630 in 1970. Since 1970, the pace of consolidations has slowed considerably.¹ Michigan now has about 550 traditional school districts, as well as a few hundred Public School Academies (better known as charter schools).

It would have been extremely difficult to achieve this tremendous wave of school district consolidations without help from the school bus. As gasoline-powered transportation became widespread in the early 20th century, it became possible to transport schoolchildren over distances that would have been unimaginable at an earlier time. This made it possible to achieve very significant economies of scale in the delivery of elementary and secondary education.

The school bus arrived on the scene at about the same time as the Progressive Era's nationwide movement to expand educational attainment through compulsory-attendance laws. Across the country, state legislatures passed laws that (when coupled with the school bus) achieved a revolution in American education. In 1910, only about 11 percent of American children were graduating from high school. By 1940, the number had increased to about 60 percent. By 1960, the levels of high-school graduation had risen to levels similar to what we see today. In my view, this transformation of elementary and secondary education is one of the great triumphs of public policy in the United States in the last hundred years. It paved the way for a period of unprecedented economic growth, as millions acquired higher levels of education and skill, and it also paved

¹ For data and discussion, see Lawrence W. Kenny and Amy B. Schmidt, "The Decline in the Number of School Districts in the U.S., 1950-1980," *Public Choice* 79 (1994): 1-18.

the way for the subsequent growth in the size of America's college-educated workforce.²

The Size Distribution of Michigan School Districts Today

Even as I have extolled the virtues of the school consolidations of the 20th century, it is probably also clear that most of the low-hanging fruit has already been picked. Many of the consolidations of the 20th century may have generated substantial cost savings by achieving economies of scale. Today, however, the number of districts is a tiny fraction of the number that once existed. It seems very likely that most of the economies of scale that could possibly be achieved have already been achieved.

In this essay, I will not attempt an econometric estimation of the minimum efficient scale of a school district. However, based on discussions with people familiar with elementary and secondary education in Michigan, my sense is that the minimum efficient scale for a school district is in the vicinity of 1000 to 1500 students.

Data on the number of students in each school district in Michigan are available on the website of Center for Educational Performance and Information, at http://www.michigan.gov/cepi/0,1607,7-113-21423_30451_30460-235226--00.html. The data for the raw head counts in the fall of 2009 show that a large number of school districts have relatively small enrollments. However, Michigan also has a few districts with enrollments that are far above the

² For an excellent discussion, see Claudia Goldin, "Egalitarianism and the Returns to Education during the Great Transformation of American Education," *Journal of Political Economy* 107 (1999): S65-S94.

average for the state.³ In 2009, the largest district (Detroit) had about 88,000 students, and the second largest (Utica) had about 29,000. Eight districts had between 15,000 and 20,000 students, 12 districts had between 10,000 and 15,000, and 50 districts had between 5,000 and 10,000 students. If we add these together, we find that there were 72 school districts with at least 5,000 students. These relatively large school districts represent only about 13 percent of all traditional school districts in Michigan, but they have nearly 730,000 students, which is nearly half of the total number of students in the state. If we add in the 70 districts with student enrollments between 3,000 and 5,000, we can account for nearly one million children. This is well over half of the schoolchildren in Michigan, even though we are only dealing with about one-fourth of the traditional school districts, and less than one-fifth of all districts including charter schools.

Another 73 districts, with a total of about 185,000 students, have between 2,000 and 3,000 students each. Yet another 80 districts, with a total of about 138,000 students, have between 1,500 and 2,000 students. Thus if we use 1,500 students as our benchmark for the minimum efficient scale, about half of the traditional school districts are

³ In the language of the statistician, the size distribution of school districts is very positively skewed. In a distribution like this, the average number of students per school district is larger than the number of students in the district with the median number of students. This type of distribution is common in economic data. For example, the distribution of income is highly positively skewed: The median household has about \$50,000 of income, which means that half of the households have incomes below this amount. However, a disproportionate amount of the total income accrues to a relatively small number of households with very large incomes.

inefficiently small, as are nearly all of the charter schools. However, although a large number of *districts* have fewer than 1,500 students, only a very small fraction of the *students* in Michigan attend such districts. If we use 1,000 students as the threshold, then we would add nearly 120,000 more schoolchildren to the category of Michigan students who are enrolled in districts that are *above* the minimum efficient scale.

In summary, although a large fraction of Michigan's *school districts* (including an overwhelming majority of charter schools) may be below the minimum efficient scale, only a small fraction of Michigan's *schoolchildren* are in these inefficiently small districts. The whole point of this look at the data has been to provide a factual basis for the argument that school district consolidation is no magical solution. Yes, it is almost certainly true that we could achieve some greater efficiencies by undertaking additional consolidations. But it is very important to keep these efficiencies in perspective. The efficiencies thus achieved are likely to be relatively small. In my view, only a very small fraction of the problems facing K-12 education in Michigan could possibly be solved by school district consolidations.

In suggesting that the cost savings from school district consolidations are likely to be modest, I am *not* saying that consolidations should be excluded from the policy mix. In particular cases where significant financial savings can be documented solidly, it is appropriate to consider consolidation very seriously. My point is not that consolidation never makes sense; instead, my point is that the people of Michigan should not think of consolidations as a panacea. This is especially true since many of the cost savings that could potentially result from consolidations could also be achieved

through cross-district sharing of services.

Local Control

Earlier in this essay, I explained the economist's approach to thinking about decisions: Add up the benefits, add up the costs, and then compare the two. In today's debate about school district consolidation, the benefit mentioned most often is the reduction in expenditure that might occur as a result of consolidation. I have presented my view that these benefits are likely to be small in most cases. However, I should also be clear that the details will vary on a case-by-case basis. To get a precise measure of the effect of consolidation on expenditures, it is necessary to do a very thorough analysis of the financial particulars of the two (or more) school districts involved. This type of analysis would not be easy, because it would have to be very detailed. In principle, however, such an analysis could come up with a fairly precise estimate of the number of dollars that could be saved by a proposed consolidation. Thus if the analysis were performed correctly, we could attain a fairly reliable measure of the benefit of consolidation.

For better or worse, however, things are much less clear on the cost side. The biggest cost of consolidation is the loss of local control that would result from a consolidation. It is extremely difficult to measure the loss of local control precisely. The natural approach for an economist is to try to find out how much the people in a school district would be willing to pay to avoid the loss of local control that would come from consolidation. But getting people to tell the amount they would truly be willing to pay is very difficult indeed.

In thinking about this issue, I decided to put the question to myself. I have lived in the East Lansing Public School

District for the past 19 years. If there were a proposal to consolidate the East Lansing District with some of the neighboring districts, how much (if anything) would I be willing to pay to avoid the resulting loss of local control? Even after pondering the question for a while, I have to admit that I have only a rough sense of the answer. And if I have trouble coming up with a precise answer for myself, it is easy to imagine the difficulties of calculating the total willingness to pay for everyone in my community. But I am sure of one thing: I would be willing to pay *something* to avoid the loss of local control. For many years, I have known personally the Superintendent of East Lansing Public Schools, as well as most or all of the members of the East Lansing Board of Education. These people are my friends and neighbors. I have more confidence in them than I have in the comparable officials in other neighboring districts. This does not imply any disrespect for school officials in Haslett, Lansing, Okemos, or other nearby districts. Rather, it is just human nature to feel more comfortable with friends than with strangers.

If I am willing to pay something to avoid the loss of local control, and if enough of my neighbors have similar views, then the total willingness to pay (added across all residents of the community) could be very substantial. Of course, this may not be very important in East Lansing, since it is a district with well over 3000 students, and it is probably much larger than the minimum efficient scale. However, in principle, we could go through the same calculation for the residents of smaller districts that might be able to realize financial benefits from consolidation. In those districts, if the desire to avoid a loss of local control is sufficiently strong, it would be very difficult for an economist to make a compelling argument for consolidation.

Several years ago, the school districts in the Ingham Intermediate School District (ISD) held an election on a “regional enhancement millage” proposal. If the millage proposal had been passed, it would have raised additional property-tax revenues that would have been spent all across the ISD. A majority of the voters in East Lansing (including me) voted in favor of the millage. In other words, I and many of my neighbors voted to impose higher taxes on ourselves, in the quest for better education. However, the millage proposal was defeated, because the voters in many other districts in Ingham County did not share East Lansing’s enthusiasm. (This is despite the fact that East Lansing, a district with relatively high property values, would have paid a higher proportion of the taxes than it would have received. Many of the districts that voted against the proposal would have received more than they paid in.)

The failure of the regional enhancement millage, despite its support in East Lansing, has helped to shape my thinking about public-school finance in Michigan. In my new book about the Michigan economy,⁴ I advocate giving local districts slightly greater authority to tax themselves, if their voters desire to do so.⁵ Clearly, when I argue for giving the existing districts increased taxing authority, the argument is not very

⁴ *Michigan’s Economic Future: A New Look*. East Lansing, MI: Michigan State University Press (2010).

⁵ However, I do not want to give unlimited authority to local districts. If that were to happen, there would be a danger that Michigan would see a reversal of the very real gains from Proposal A (which pushed in the direction of greater inequality in per-student funding). Thus my view is that we would gain from a *modest* increase in local taxing authority.

consistent with a policy of widespread consolidations.

Florida has 67 school districts (one for each county in the state). Some have recommended that Michigan should follow Florida’s lead. If we were to do that, Michigan would have one school district for each of its 83 counties. All of the districts in Ingham County, including East Lansing, would be folded into a single school district. If such a proposal were put on the ballot, I would vote no, for the reasons articulated above. Once again, however, it is very important to emphasize that this depends on my own personal views about the importance of local control. Reasonable people may have very different views on the subject.

If the rules of our democracy were temporarily suspended, and I were given autocratic powers, I would assign a team of top-notch economists and accountants to run the numbers very carefully, and I would only consolidate where significant efficiencies could be documented. Since my team of economists and accountants has not yet been assembled, I can’t say for certain how many consolidations would be recommended. However, my guess is that, as Michigan’s Temporary Education Tsar, I would consolidate a fair number of districts, most of which currently have fewer than 1000 students. I could well imagine a future Michigan with a streamlined educational system in which the number of school districts has been reduced to 400, or even fewer. For me at least, it is hard to imagine that a Michigan with only 83 school districts would achieve the optimal balance between efficiency and local control.

What Happens If Consolidations Do Occur?

In the previous section, I speculated about what might happen under a Tsar.

However, I am not the Tsar, nor should I be, nor should anyone else. But this does raise the question of whether consolidations should be voluntary. Currently, if the voters in two districts do not agree to a consolidation, the consolidation does not take place. But the people of Michigan could give authority to force consolidations to the governor, or the State Board of Education, or the State Superintendent, or some other person or group. In my view, it would be wise to tread very carefully in this regard. Michigan's tradition of local control of elementary and secondary education is such that I would be very reluctant to recommend a *forced* consolidation, except in cases where the local districts have been shown to exhibit incompetence or malfeasance, or where the inefficiencies due to their small scale of operations are most extreme. On the other hand, I am not opposed to allowing the state to provide *incentives* for consolidation.

consolidations are not plowed back into instruction.

Finally, if consolidations take place, and if they can save money, what should we do with the savings? Much of this essay has a cautious tone, but I will be unequivocal here. If we can save money by consolidating school districts, we should put *all* of the savings back into instruction. As I argue in my book, Michigan is underinvested in education from pre-school to Ph.D., from cradle to career. We have recently reduced our investments in early childhood education, at precisely the time when we should be increasing them. We absolutely should have full-day kindergarten for all, and we should have a longer school year. None of these changes can be achieved without spending money. If we can use selected consolidations to free up money that can be redirected to instruction, it would be a good thing for Michigan. It would be tragic if the only purpose of consolidations is to save money, and if the savings from