A Case Study

Urban education: the economics of Philadelphia's school crisis

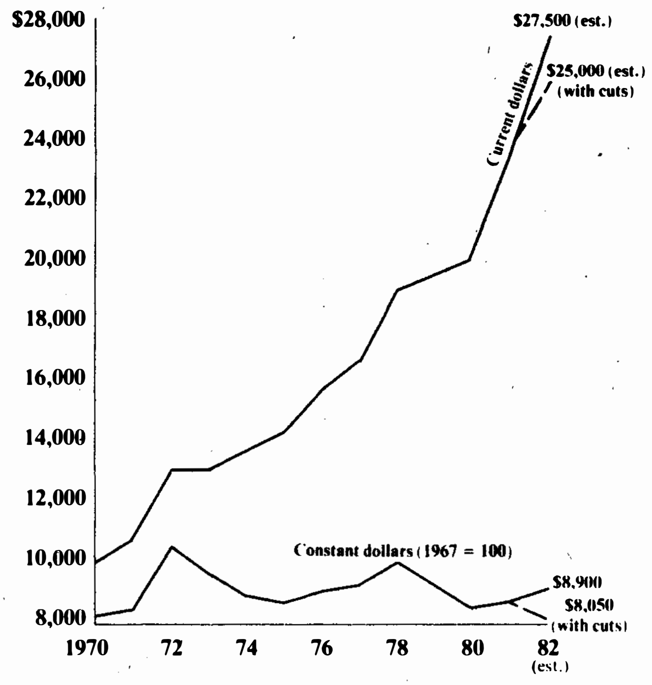
by Stephen Parsons

On the 16th day of the Philadelphia school strike, three prominent officials from the City of Brotherly Love held a quiet luncheon meeting in New York with Felix Rohatyn.

The ostensible topic of discussion among Rohatyn and Mayor William Green, City Representative Richard Doran and Finance Director Edward De Seve on Sept. 25 was how to put together a financing package to "save" the Philadelphia school system. But the actual purpose of the meeting was to ensure that Philadelphia's schools would get the Big MAC treatment from Rohatyn.

What both Rohatyn and Philadelphia's financier elite are demanding is that Green set up an "independent" school fiscal agency, modeled on New York City's Municipal Assistance Corporation ("Big MAC") and the Chicago School Finance Authority, that would force the school district to implement savage austerity under the rubric of "living within its means." The bottom line would be the final destruction of Philadelphia's battered school system, as well as the disenfranchisement of the traditional School Board and a further slash in the living standards of teachers and other public employees.

Figure 1
Average Philadelphia teacher salary



The school strike

The Philadelphia school district ended its 1980-81 fiscal year with a $71 million deficit, which the Board of Education attributes almost entirely to state underfunding of mandated Special Education programs over the past two years. Despite extensive staff and teacher reductions since 1977, and the inclusion of a formula in the current teacher contract which has permitted the elimination of hundreds of positions due to declining student enrollment, the district faced an additional $152 million budget gap for this school year.

In March, School Superintendent Michael P. Marcase warned that if the city would not "live up to its commitment to seek funds to finance the teacher contract" and the state would not "meet its legal and moral commitment to the handicapped children of Philadelphia, . . . we will have no alternative but to recommend massive and devastating budget cuts that will violate contractual, court, and legislative mandates, and all but paralyze the school system."

But with both the city and state unwilling to provide extra funding and facing their own share of a combination of stagnating revenues, skyrocketing inflationary costs, and federal revenue-sharing and categorical aid rescisions, the district reluctantly instituted drastic budget cuts of between 15 and 20 percent. When inflation is figured in, the cuts would actually amount to 25 to 30 percent.

The Board announced that it was laying off 3,500 of the district's 26,000 employees—mostly teachers—despite a no-layoff clause in its contract with the 22,000-member Philadelphia Federation of Teachers (PFT). In addition, it rescinded the scheduled 10 percent salary increase it had previously negotiated with the teachers—who had already deferred any wage hike until this school year. The Board also called for a three-student increase in class size and the drastic reduction of teacher preparation time.

Faced with a clear breach of contract and what Marcase warned would be the virtual destruction of education, the PFT went on strike Sept. 8 and stayed out for 50 days. The strike ended Oct. 27 when a three-judge panel in Commonwealth Court modified a lower-court injunction ordering the teachers to return to work. While upholding the original back-to-work order, the panel stipulated that the union is covered by last year's contract, a move that effectively reinstates the 3,500 laid-off employees.

Although the logjam has been temporarily broken with the court ruling, the question of funding is still very much unresolved.

The truth about salaries

Mayor Green and the Philadelphia financier elite vociferously blame the district's financial plight on the teachers—"the highest paid in the world," they say. While it is certainly true that the PFT's salary increases comprise the largest single component of the $223 million deficit, and that personnel expenditures are the largest budget item, it is false and incompetent to pin the district's problems on either the teachers or Board of Education.

As Figure 1 demonstrates, while the average teacher's salary has nearly tripled since 1970, last year a teacher actually made only 2 percent more than in 1970—and 15.8 percent *less* than 1972's peak—once inflation is considered. Even if the teachers win their 10 percent salary increase this year, the average teacher will earn only $8,700 to $9,000 in 1967 dollars—10 percent below the 1972 figure.

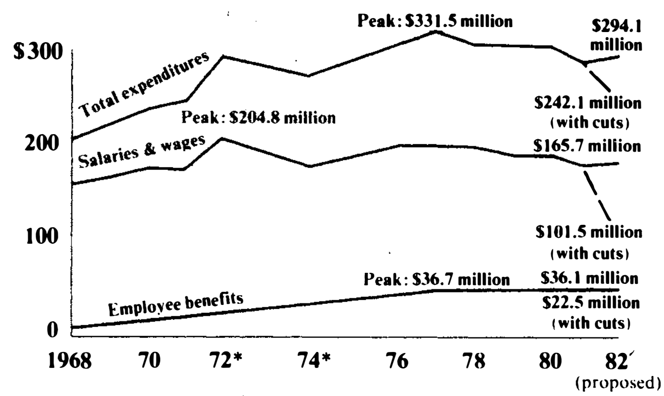
Individual teachers have, of course, increased their real wages over the years by advancing through the system's 11-step pay scale. But once they reach the top pay grade after 11 years, they lose real income. Last year, teachers with a Masters degree who had 11 years or more seniority, earned 20 percent less than they did in 1972 and 1973, in constant dollar terms.

Administrators have not even fared this well. A "664-level" director at the top pay grade, for example, earned just under $20,000 in 1969, in constant dollars. This year, he will earn less than $13,000—a 35 percent cut—and has lost money almost annually.

The situation is even worse at lower and entry-level pay grades. If our "664-level" director were starting this year at his new position, he would receive only $11,500 in 1967 dollars. A first-year teacher with a Masters degree probably wouldn't bother: he would get only $3,660!

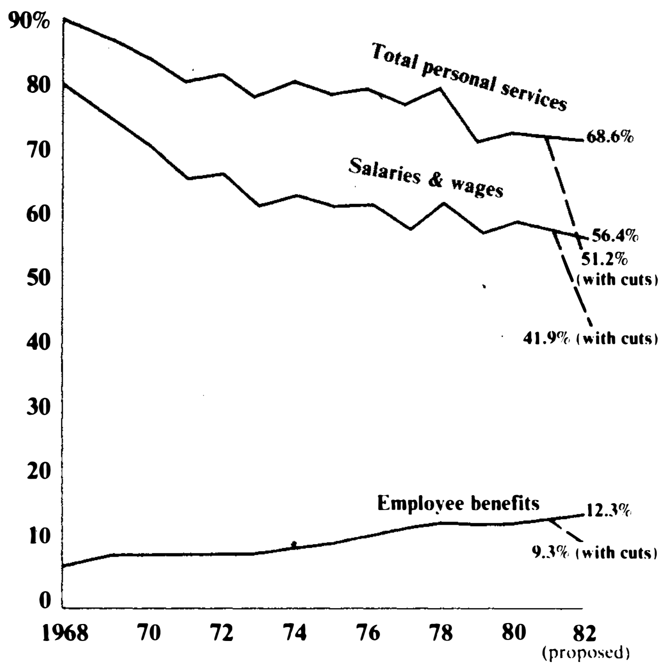
City officials might like to trot out current dollar charts to show how education expenditures and person-

Figure 2
General Fund expenditures: Constant dollars
(millions of dollars; 1967 = 100)



* 1973 not included due to long strike, which reduced General Fund expenditures substantially.

Figure 3
Allocation of General Fund expenditures



nel costs are "out of control." But Figures 2 and 3 show a very different reality. When inflation is taken into account, total expenditures have fallen 11 percent from the 1977 high, and would rise only slightly this year even with full budget funding. Salaries and wages peaked in 1972 and have fallen 20 percent since then. If the proposed budget cuts are effected, expenditures would be slashed 20 percent from 1980 levels, and more than 25 percent from the peak; salaries would plummet 44 percent below 1980, and over 50 percent from the 1972 peak!

Moreover, salaries and personal services (i.e., salaries plus benefits) expenditures have declined sharply as a percentage of education expenditures (Figure 3). In 1968 salaries and total personal services comprised 79 percent and 85 percent, respectively, of all costs. Under the original 1982 budget proposal, that would fall to only 56 percent and 69 percent. With the cuts enforced, they would sink to only 42 percent and 51 percent. And the greatly ballyhooed "employee benefits perks" have risen only from 8 percent to less than 12 percent of total expenditures in 13 years.

The revenue plunge

The chief cause of the school district's financial crisis is the fall in constant-dollar revenue, and especially Philadelphia's local tax receipts. Mayor Green and the news media might exclaim all they want about how much money is pumped into the school system; but in reality it is the relative stagnation of revenues in the face of soaring inflation that has precipitated the crisis. Figure 4 shows why.

Figure 4

Philadelphia School District revenues: Constant dollars

(millions of dollars; 1967 = 100)

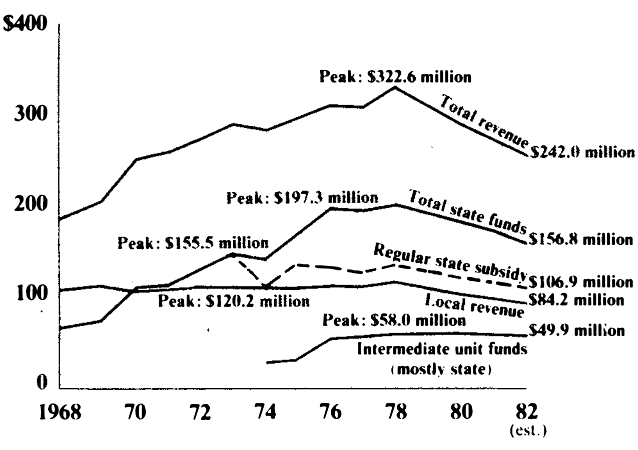
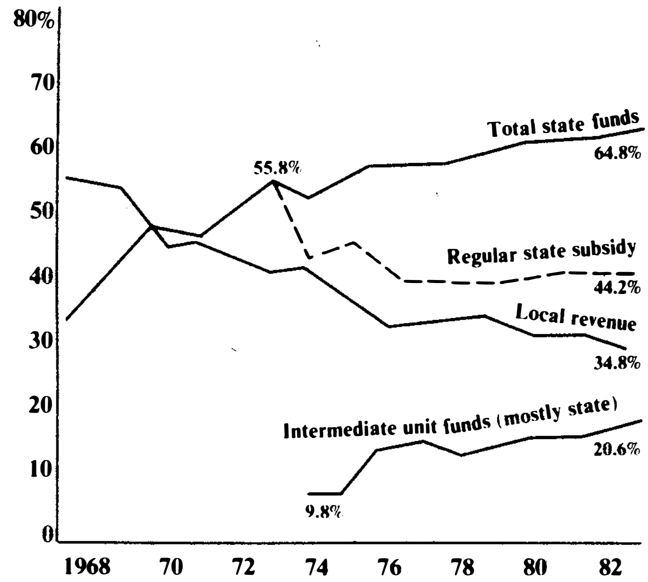


Figure 5

Proportion of Philadelphia School District revenues



Since its peak of $323 million in 1978, by the end of the 1982 fiscal year revenues will have plunged by 25 percent or more in 1967 dollars. This has coincided with sharp inflationary pressure on the cost side, where expenses have zoomed, especially non-salary expenses.

Both the city and school district have been in a revenue bind since the 1960s. Since 1968, the peak years for local revenues have been only about 10 percent higher than that year (in constant dollars), and now revenue is 21 percent lower. Increasingly since then, the slack has been taken up by the state, which has increased its funding nearly 600 percent in nominal dollars, and over 100 percent in constant dollars. The local share of school funding has gone from 59 to 35 percent, while the state's share has increased from 38 to 65 percent (Figure 5).

Since 1978, however, the increase in state funding has fallen far short of inflation, its subsidies declining 20 percent in constant dollars, as local revenues plunged 30 percent. While the city of Philadelphia's revenues can barely keep pace with its sharply cut-back obligations, the city coffers hardly have much to spare for a school bailout.

The increased dependence on state funding has also resulted in a major shift of emphasis in public education. As Figures 4-5 show, the largely state-funded Special Education component of school expenditures—which includes education for the handicapped, vocational education, and other programs—has risen to over 20 percent of the budget, while state subsidies for regular education have fallen.

This has forced a de facto shift of teachers from the regular classroom into these programs. Moreover, because state and federal law mandates open-ended funding for Special Education, there has been a tendency to greatly increase student enrollment—and hence, teachers and administrators—in these programs.

Thus, in 1978 and 1979, as both expenditures and revenues began their precipitous declines in real dollar terms, Special Education enrollment doubled from 11,600 students to 23,000. The number of "learning disabled" students suddenly went from 501 in 1977, to 1,582 in 1978, and 2,668 in 1979. In 1978, those labeled "detention" and "retarded educable/emotionally disturbed" increased from 571 to 6,821.

Why revenue has dropped

It is clear why the revenues of both Philadelphia and the school district have dropped in real-dollar terms. As in New York City and other large urban centers, employment in Philadelphia has plunged disastrously, with the heaviest decline in the productive sectors of manufacturing, construction and transportation (Figure 6). On a proportional basis, Philadelphia has been hit even harder than New York, with total employment since 1970 dropping 15 percent, manufacturing by no less than 43 percent, and construction by 34 percent. Today, manufacturing constitutes only 17 percent of total employment, versus 26 percent a decade ago.

Although property values have climbed steeply, the loss of business and employment, especially manufacturing, has caused a 13 percent and 25 percent drop in real estate taxes for the school district and city, respectively, in constant dollars.

Real estate tax revenue, which comprises 80 percent of the school district's local tax receipts, has also suffered from both the heavy increase in other taxes (especially federal and state income taxes), which have occurred in the last decade and because localities have been politically unable to increase tax rates. It should be noted that in other parts of the United States, where rates have increased substantially, Proposition 13-style tax-limitation moves have threatened to, or actually have in fact, lowered tax rates and local receipts.

Most other tax revenues in Philadelphia have fared even worse, as the city's depressed economy has generated a virtual population exodus. The nation's fourth largest city has lost 20 percent of its population since 1970, and its public school enrollment is down nearly 25 percent.

As is now apparent in the Chicago school system, in New York City generally, and in the federal government, no amount of fiscal austerity can solve problems that are fundamentally caused by the collapse of revenues and real economic growth.

Figure 6

Employment shifts in Philadelphia and New York City, 1970-1980