

A monthly review of Wisconsin government, taxes and public finance

The Wisconsin Taxpayer



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This issue of The Wisconsin Taxpayer takes two very different approaches to public finance. The first looks at concrete issues of state budget processes and fiscal management. The second examines the elusive concept of "social capital" with special attention to schools.

Improving Wisconsin's Fiscal Management

There is an emerging consensus that Wisconsin needs to rethink its state budget processes and fiscal management. A study committee of citizens and current and past legislators, the Special Committee on Improving Wisconsin's Fiscal Management, is meeting to "examine ways for Wisconsin to improve its ability to manage its finances using modern financial management and policy practices in the context of the budget process." The committee will report to the 2003-04 state legislature.

That committee has already heard from state and national experts on how Wisconsin's fiscal processes and management compare with other states and how

revenue and expenditure decisions produce future budget deficits?

Evidence of future deficits seems to limit policymakers' options. It makes it particularly difficult to argue for tax cuts.

Several states develop long-term forecasts. In California, the nonpartisan Legislative Analyst's Office is required to provide annual five-year outlooks for revenues and expenditures. In Maryland and North Carolina, long-range forecasts are included as part of the governor's budget.

The Maryland legislature has a spending affordability committee, composed of the legislative leadership and assisted by a citizen committee. Its responsibility is to recommend a level of appropriations to the governor in light of the current and future

state economy, expenditure trends, long-term operating and capital obligations, and any other issues it deems relevant.

Wisconsin's last several budgets have included measures to improve state fiscal management. The Department of Administration (DOA) and LFB must now, as part of the budget process, prepare four-year estimates of revenues and expenditures. DOA must also provide a statement of the budgetary surplus or deficit under GAAP. □

DATA SOURCE:

Testimonies before Committee on Improving Wisconsin's Fiscal Management by Ron Snell (National Conference of State Legislatures), and Frank Hoadley (Wisconsin Capital Finance Director); Wisconsin Legislative Fiscal Bureau; and Wisconsin Department of Administration.

Social Capital: Missing Link in the Public School Debate?

At a recent statewide conference of the Wisconsin Community Education Association, WISTAX President Todd Berry spoke on the importance of social capital in education. The following comments are from Mr. Berry's remarks. The views expressed are his and do not necessarily reflect those of the WISTAX board of directors, staff or contributors.

Consolidation, equity and increased funding have become common prescriptions for Wisconsin's public problems as of late. Merge municipalities or school districts, achieve school finance equity and boost state tax funding of education, and all will be well, we are told by those who see the world in black and white. For them, the keys to good public policy are dollars and formulae. They focus on capital in the narrow sense of the word—what Webster defines as “wealth, money or property.”

CAPITAL—MORE THAN MONEY

This traditional, financially-based notion of capital—money, stock, bonds, machinery and equipment—has been around for a long time. In the early 1960's, things began to change. Economists started writing about human capital—the knowledge and skills that come from education and training—and the role it plays in economic progress. The G.I. Bill and its positive impact on the post-war American economy is sometimes cited as an example of successful investment in human capital.

With this second view of capital added to the mix, public discussion of education comes down, more than ever, to this single word, capital. How much of our tax dollar should we devote to public schools? Should we build a new high school? These are questions that invoke capital in the traditional sense. Will improved teacher training boost student achievement? Can internships and

school-to-work programs improve the economic productivity of a community's labor force? These questions touch on the human capital dimension of schooling.

A case can also be made for a third form of capital that is just now finding its way out of academic journals and into popular discourse. This article examines the idea of *social* capital, its history, the positive role it can play in education—and the adverse consequences that can result if it is ignored, as has happened elsewhere. I argue that traditional capital, such as state school aid, or human capital efforts, such as teacher training, are not enough to guarantee high-performing schools. Social capital is missing from the Wisconsin policy debate; we ignore it at our peril.

What Is Social Capital?

A leading social theorist defines social capital as “embedded resources in social networks that enhance the outcomes of actions.” Put more simply, social capital derives from the benefits of social relationships, such things as interpersonal trust, information shared by neighbors, putting in a “good word” for someone, parental advice, teacher expectations and school rules of conduct. Social capital is the “grease” that activates financial and human capital. Without it, investments in the other forms of capital will be less effective.

To better understand what social capital is, consider a few examples:

- ◆ The local Rotary Club provides adult mentors to advise at-risk athletes at Smallville High School, and dropout rates decline;
- ◆ Mr. Smythe loses his plant job but quickly finds new work on a tip from friends in his church men's group;
- ◆ By reaching out to employers in the community, the Elm School PTA raises funds to buy new playground equipment;

◆ And youth vandalism in the River's Edge subdivision declines when residents form a homeowners' association and institute a neighborhood-watch program.

Each of these vignettes illustrates how social capital—the mutual support, information, trust and behavioral expectations found in social relationships—can be leveraged to improve school performance, boost career prospects or enrich community life.

Old Ideas Are New Again

The discovery of social capital in the academic world is rather recent. Although sociologists, most notably in France and at the University of Chicago and Duke University, probably deserve credit for laying the theoretical foundations for social capital in the 1980's, it was Harvard political scientist Robert Putnam who popularized the idea in the 1990's. He used falling participation in bowling leagues as a metaphor for the widespread decline in citizen participation and civic engagement throughout America, and he exhaustively documented this decline in his 2000 book, *Bowling Alone: The Collapse and Revival of American Community*.

The notion of social capital is not new. In 1831, Alexis de Tocqueville left France and toured a young America, recording his observations in the classic *Democracy in America*. He called the state “only a second-rate community” characterized by “obscure administration.” In describing the federal government, he used words such as “power” and “high station” and “functionaries.”

But de Tocqueville viewed townships, the main form of government in early New England, differently. He found that they served “the purpose of interesting the greatest possible number of persons in the common weal . . . local administration thus affords an unfailing source of profit and interest to a vast number of individuals.” De Tocqueville continued:

The American attaches himself to his little community . . . [his town] is independent and free; his co-operation in its affairs ensures his attachment to its interests . . . He takes part in every occurrence in the place; he practices the art of government in the small sphere within his reach . . .

What de Tocqueville had to say about towns is, I would argue, just as applicable to the many active, proud and engaged municipalities and school districts that dot Wisconsin. This is not surprising, for the phrase “social capital” was first used by a community-schools advocate. In 1916, L. J. Hanifan, West Virginia’s supervisor of rural schools, urged community involvement in schooling, writing of “those tangible resources [that] count for most in the daily lives of people: namely, good will, fellowship, sympathy . . .” A socially isolated individual is helpless, Hanifan noted, but:

if he comes into contact with his neighbor, and they with other neighbors, there will be an accumulation of social capital, which may immediately satisfy his social needs and which may bear a social potentiality sufficient to the substantial improvement of living conditions in the whole community . . . the individual will find in his associations the advantages of the help, the sympathy, and the fellowship of his neighbors.

AT WORK IN WISCONSIN

Ties between people and their schools in Wisconsin are just as important today as they were in West Virginia more than 85 years ago. This is particularly true for schools that are at the heart of life in thriving neighborhoods and vibrant communities across the Badger State:

◆ These are high-performing schools where candor and trust characterize the relationships between administrators and teachers, between teachers and parents, between school and community leaders;

◆ These are schools offering cultural, athletic and learning opportunities to the surrounding community, which responds with loyal attendance and active support;

Harvard’s Putnam finds social capital more important than socioeconomic status, school funding, staff salaries and class size.

◆ These are schools whose leaders, teachers and students don’t eschew community improvement but promote it . . .

◆ . . . and communities whose civic organizations embrace their schools with gifts of time and money;

◆ These are schools with active PTA’s, enthusiastic booster clubs and often-loyal alumni.

In short, these are schools that have accumulated social capital through regular and honest sharing of information, mutual service and support, high community expectations and lots of trust. Educators can draw on this “bank” of social capital in times of crisis and challenge.

A Critical Role

How important is social capital to students? Harvard’s Robert Putnam reports that the “best predictor” of children who grow up free of abuse and neglect was “the degree to which they and their mothers were enmeshed in a supportive social network, lived in a socially supportive neighborhood, and attended church regularly.”

How critical is social capital to schools? Absolutely, according to Putnam, who quantified social capital in various parts of the country and found:

The beneficial effects of social capital persist even after accounting for a host of other factors that might affect state educational success—racial composition, affluence,

economic inequality, adult educational levels, poverty rates, educational spending, teachers' salaries, class size, family structure, and religious affiliation, as well as the size of the private-school sector . . . astonishingly, social capital was the single most important explanatory factor.

No wonder Putnam has attracted so much support—and controversy. He unequivocally argues that social capital is more im-

Social capital is left out of school discussions; yet, its impact is major.

portant than any of the factors to which researchers and advocates often point, including socioeconomic status, school funding, staff salaries and class size.

Lost in the Debate

And this brings me to the heart of my argument. Think about what is front-and-center in discussions over K-12 education in Wisconsin: district consolidation; an increased role for state government in funding and governing local schools, as a result of the 1993-94 “deal” that struck a political balance between new state money and greater state control through revenue limits; the diversion of state dollars from no-strings-attached general aid to categorical aid restricted to specific programs, such as class size reduction and special education; and the perceived inequity in state funding across the various school districts.

These are the “big” issues that are being debated, and they are all about money—capital—in the most traditional sense. Of course, money is important. It is needed to attract and keep good staff, maintain buildings and purchase materials. But there is more to Wisconsin schools than funding levels, class size and equity. Indeed, published, peer-reviewed research casts considerable doubt

on the link between funding and school performance, and on the wisdom of costly class-size reductions as opposed to, say, staff development. And, the latest figures show indisputably that funding equity among Wisconsin school districts has improved, not deteriorated, over the past decade.

There is more to high-performing schools than money, buildings and equipment. According to Putnam, social capital in all its forms—school-community ties, principal-teacher trust, involved parents, high expectations for behavior and learning—is essential to successful schools and students. Yet, the focus in Wisconsin lies elsewhere.

If we are going to talk about capital in the context of education, we need to consider it in all its dimensions—traditional, human and social. Currently, social capital is left out of the discussion, and the implications for future decisions could be serious and permanent.

FUTURE MISSTEPS?

What lies ahead? The best predictor of the future is the past. So, recall the 1970's and 1980's: Public anger over high property taxes was palpable; the state responded by hiking school aids and imposing cost controls. When criticism of the controls mounted, they were slowly eroded and finally abandoned. A surge in staff costs and school levies followed.

The cycle began anew in the 1990's with discontent over rising property taxes emerging once again. The result was a still greater role for the state in terms of money (the “two-thirds” funding pledge) and control (revenue limits). It is entirely conceivable that this cycle will play out as before: State controls will again be repealed; costs and levies will again accelerate; and the public will again demand action. Ultimately, the state response

will be to fully fund all school costs and to control them through centralization of decisions regarding buildings and compensation—again, with no thought given to social capital, despite its pivotal role in ensuring effective schools.

How do I know this? For starters, Governor Thompson's Kettl Commission seriously debated 100% state funding of schools more than a year ago. Moreover, research from the *Journal of Education Finance* is clear:

◆ From Washington state comes this finding: “. . . the experience of Washington's schools in the last decade suggests that a highly centralized funding system may limit the capacity of individual schools to flexibly respond to local needs and desires . . . the ability of individual schools to use available resources in support of the type of ‘bottom-up’ school-specific reforms championed by leading educators . . . is severely limited.” (Theobald and Hanna, 1991)

◆ From California comes similar news: “It appears that the increased equity the California system has achieved has also created more Chevrolets and fewer Cadillacs among the state's schools.” (Picus, 1991)

◆ And from Hawaii, where schools are entirely state-funded, come this: “The centralized allocation of funds has not provided a stable source of funding and, in fact, has over time resulted in a severe decline in the ratio of funds for public education to the total state appropriations.” (Thompson, 1992)

The considerable body of research in this area was summed up recently by one public finance expert in *State Tax Notes*, a publication for tax professionals: “There is very little debate about whether the centralization of school funding . . . has improved school performance. The evidence is almost all negative.” (Fischel, 2000)

From a social capital perspective, this is easy to understand. When schools are locally funded and locally governed, taxpayers and parents, teachers, school officials and community leaders feel they have a stake in education. Over several generations, this has resulted in a host of interpersonal and intra-community relationships developed around schools. These ties foster trust, involvement and support. Remove money and control from the local school equation, and you remove a powerful reason for public interest in education and a significant incentive to building social capital.

Anecdotal evidence from Wisconsin suggests this is already occurring in the wake of the increased state role that began in the mid-90's. With some districts now more than four-fifths funded by the state, some school officials report that attendance at annual meetings is down, and that numbers of school board candidates have dropped. I suspect PTA/PTO activity may be on the decline, too.

THE TIES THAT BIND

Social capital is critical and fragile. We risk eroding and eventually destroying it in Wisconsin if we focus solely on capital in its narrow, traditional sense. If we are going to make major changes in school funding and governance here, then it is time we acknowledge the value of all three dimensions of capital—traditional, human and social. It is time we assess the social capital effects of various policy proposals—and not just the easy-to-measure impacts on budgets and equity.

Those who talk only about the traditional, financially-based aspects of capital are missing what could be the key to preserving Wisconsin's proud tradition of effective schools—the personal and social ties that bind us together in communities. □