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HOW LOCAL ECONOMIC CONDITIONS AFFECT SCHOOL FINANCES, TEACHER QUALITY, AND STUDENT ACHIEVEMENT: EVIDENCE FROM THE TEXAS SHALE BOOM

ABSTRACT

Whether improved local economic conditions lead to better student outcomes is theoretically ambiguous and will depend on how schools use additional revenues and how students and teachers respond to rising private sector wages. The Texas boom in shale oil and gas drilling, with its large and localized effects on wages and the tax base, provides a unique opportunity to address this question that spans the areas of education, labor markets, and public finance. An empirical approach using variation in shale geology across school districts shows that the boom reduced test scores and student attendance, despite tripling the local tax base and creating a revenue windfall. Schools spent additional revenue on capital projects and debt service, but not on teachers. As the gap between teacher wages and private sector wages grew, so did teacher turnover and the percentage of inexperienced teachers, which helps explain the decline in student achievement. Changes in student composition did not account for the achievement decline but instead helped to moderate it. The findings illustrate the potential value of using revenue growth to retain teachers in times of rising private sector wages.

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