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1988

## On Estimating the Effects of Increased Aid to Education

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# On Estimating the Effects of Increased Aid to Education

## Abstract

[Excerpt] The 1983 report, *A Nation at Risk*, of the National Commission on Excellence in Education decried the state of public education in the United States and suggested a number of reforms. Among their recommendations was increased federal aid for education. The view was that this would lead to desirable outcomes such as reduced class sizes and higher teacher salaries, with the latter aiding in the recruitment and retention of high-quality teachers.

Somewhat surprisingly, previous research on the economics of education provides us with very few insights about what the effects of such proposals might be. For example, while there is an extensive literature on the determinants of cross-section variations in teachers' salaries and teacher/student ratios, virtually nothing has been written on how changes in aid levels influence changes in salaries, teacher/student ratios, other expenditure levels, and local tax rates. Similarly, while there are many studies of how grants-in-aid affect overall expenditure levels and some studies of the determinants of cross-section variations in the share of expenditures spent on various categories (e.g., instructional and administrative), virtually nothing has been written on how changes in aid affect the various expenditure shares.

To provide answers to some of these questions, our paper examines data from a panel of approximately 700 school districts in New York State over a five-year period (1978-79 to 1982-83) and tries to infer how school districts will respond to future changes in aid from how they responded to changes in state aid during the period. We focus on how past aid changes have influenced teacher salaries, tax rates, teacher/student ratios, and other staff/student ratios. The analyses exploit the fact that although school aid formulas change frequently in New York State, each district is usually guaranteed at least the same aid level as the previous year ("save harmless" provisions). As a result, over any given two-year period, the percentage increase in aid varies widely across districts. This provides a convenient form of natural experiment.

## Keywords

education, federal aid, class size, teacher salaries, New York State

## Disciplines

Education Economics | Labor Economics | Labor Relations

## Comments

### Suggested Citation

Ehrenberg, R. G. & Chaykowski, R. P. (1988). On estimating the effects of increased aid to education [Electronic version]. In R. Freeman and C. Ichniowski (Eds.), *When public sector workers unionize* (pp. 245-262). Chicago: University of Chicago Press.

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# On Estimating the Effects of Increased Aid to Education

Ronald G. Ehrenberg and Richard P. Chaykowski

## 9.1 Introduction

The 1983 report, *A Nation at Risk*, of the National Commission on Excellence in Education decried the state of public education in the United States and suggested a number of reforms. Among their recommendations was increased federal aid for education. The view was that this would lead to desirable outcomes such as reduced class sizes and higher teacher salaries, with the latter aiding in the recruitment and retention of high-quality teachers.

Somewhat surprisingly, previous research on the economics of education provides us with very few insights about what the effects of such proposals might be. For example, while there is an extensive literature on the determinants of cross-section variations in teachers' salaries and teacher/student ratios, virtually nothing has been written on how changes in aid levels influence changes in salaries, teacher/student ratios, other expenditure levels, and local tax rates.<sup>1</sup> Similarly, while there are many studies of how grants-in-aid affect overall expenditure levels and some studies of the determinants of cross-section variations in the share of expenditures spent on various categories (e.g., instructional and administrative), virtually nothing has been written on how changes in aid affect the various expenditure shares.<sup>2</sup>

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This research was partially supported by the NBER's Public Sector Labor Relations project. However, the authors alone are responsible for the contents of this paper. Without implicating him for what remains, the authors are extremely grateful to Richard Murnane for his detailed comments on an earlier draft.

To provide answers to some of these questions, our paper examines data from a panel of approximately 700 school districts in New York State over a five-year period (1978–79 to 1982–83) and tries to infer how school districts will respond to future changes in aid from how they responded to changes in state aid during the period. We focus on how past aid changes have influenced teacher salaries, tax rates, teacher/student ratios, and other staff/student ratios. The analyses exploit the fact that although school aid formulas change frequently in New York State, each district is usually guaranteed at least the same aid level as the previous year (“save harmless” provisions). As a result, over any given two-year period, the percentage increase in aid varies widely across districts. This provides a convenient form of natural experiment.

The organization of our paper is as follows. Section 9.2 discusses how state aid to education in New York State was allocated to school districts in 1978–79 and then how the allocation formulas changed during the sample period. Section 9.3 describes our methodological approach and the data base we have collected. Empirical results are presented in section 9.4, which is then followed by some brief concluding remarks.

## 9.2 State Aid to Education in New York State

By far the largest form of state aid to education in New York State<sup>3</sup> is general operating aid; this category ranged between 68 and 75 percent of total state aid during the sample years. Operating aid is based on an aid-ratio formulation in which low “wealth” districts receive more aid than high “wealth” districts. Specifically, the state establishes two expenditure/pupil levels,  $E_L$  and  $E_H$ , and then for average “wealth” districts pays 49 percent of district operating expenditures up to  $E_L$  and 20 percent of any district operating expenditures between  $E_L$  and  $E_H$ . For other districts, the share paid by the state of expenditures up to  $E_L$  is

$$(1) \quad r_{i1} = (1 - (W_i/\bar{W}) * .51),$$

and the share paid by the state of expenditures between  $E_L$  and  $E_H$  is

$$(2) \quad r_{i2} = (1 - (Y_i/\bar{Y}) * .8).$$

In these equations  $W_i$  and  $Y_i$  are measures of the district’s wealth relative to the number of “aidable pupil units” in the district, while  $\bar{W}$  and  $\bar{Y}$  are comparable statewide average measures. “Aidable pupil units” depend upon average daily attendance in the district, with extra weight being given for secondary school pupils, handicapped pupils, and pupils with special needs (those who scored low on standardized tests). Throughout the sample period,  $W_i$  and  $\bar{W}$  were always based on the

full value of property, and  $Y_i$  and  $\bar{Y}$  were similarly defined through 1980–81. However, in 1981–82 and 1982–83 the latter were redefined in terms of 1979 and 1980 community income, respectively (as reported from Internal Revenue Service records).

The level of general operating aid received by a district changes over time because of changes in  $E_L$  and  $E_H$  (these grew from \$1,450 and \$1,500 in 1978–79 to \$1,885 and \$2,155 by 1982–83, with the magnitude of the increase varying widely across years), changes in district wealth and school enrollment (both relative to statewide changes), and changes in the definition of wealth (in eq. [2]) in the latter two years.<sup>4</sup> In addition, “save harmless” provisions were always in effect. They stated that general operating aid could never be reduced, typically either on a total or per pupil basis, with the school district allowed to choose the option that was most beneficial to it. As a result school districts in which wealth was increasing rapidly or enrollments declining did not have to face a loss of general aid. These “save harmless” provisions substantially influenced the distribution of state aid; for example in 1979–80 over 35 percent (249) of the districts received aid under them.

In principle, the level of general operating aid received by a district might also increase simply because the district had increased its per pupil expenditures. That is, as long as the district was spending less than  $E_H$ , increases in expenditures (up to  $E_H$ ) would induce increases in state aid through the matching formulas (eqs. [1] and [2]). In such a situation, it would not be meaningful to refer to an increase in aid “causing” the expenditure increase. However, the majority of districts appeared to have spent more than  $E_H$  each year, so this concern is probably not relevant for our data.

Although general operating aid is by far the largest component of state aid to education in New York, numerous other forms of aid exist. Some, like transportation aid (which comprises typically 10 percent of total aid), are based on formulas in which the state pays a specified share of mandated costs. Others, like construction aid, are based on a sharing of actual expenses. These latter categories, however, represent only a small share of total aid.

Of special interest to us are two other forms of aid that existed during at least part of the period. First, in 1979–80, prior to the inclusion of income as a measure of wealth in the general operating aid formula, the state instituted a “low-income aid” component of school aid; this provided between \$1.76 (highest income district) and \$27.50 (lowest income district) on a per pupil basis. This type of aid represented roughly 10 percent of the increase in state aid that occurred that year.

Second, each year the state provided special aid programs for “city” school districts. In most school districts in New York State the voters implicitly set the tax rate each year via budget referenda. In city dis-

tracts, however, the tax rate is set by local school boards, subject to the rate not exceeding a state constitutionally determined maximum. The special aid programs for these city districts were designed to help out those districts that were near their constitutional maximum tax rate and to help other city school systems meet special needs that their districts faced.

Because of all of the above provisions and other types of aid to education, the percentage change in total aid varied widely across school districts in any given year. As mentioned above, this provides a convenient form of natural experiment in which we can try to infer how districts would respond to changes in federal aid in the future from observations on how they have responded to changes in state aid in the past. In much of what follows we shall treat these aid changes as exogenous; however, our discussion suggests that a district's percentage changes in full value of property, in enrollment, in level of income, and whether the district is a city school district, all influenced the district's percentage change in state aid in a highly nonlinear manner that both varied from year to year and depended upon whether a "save harmless" provision was an effective constraint on a district in a given year. As a consequence, in places below we have attempted to obtain instrumental variable estimates for changes in aid and have used these in our analyses.

### 9.3 Methodological Framework and Data

The outcomes we focus on are percentage changes in teachers' salaries—minimum salary with a bachelor's degree ( $P1$ ), maximum with a bachelor's degree ( $P2$ ), minimum with a master's degree ( $P3$ ), and maximum with a master's degree ( $P4$ )—percentage changes in the property tax rate on the full value of property in the district ( $P5$ ), and percentage changes in staff per pupil ratios—teacher/pupil ( $P6$ ), non-professional staff/pupil ( $P7$ ), other professional staff/pupil ( $P8$ ), and paraprofessional staff/student ( $P9$ ).<sup>5</sup> Given the initial level of these outcomes that prevail in a school district in a period, their percentage changes are determined by a complex process that involves bargaining between a school board and a union and, in the case of small districts in New York State, a voter referendum on the proposed school district budget. Rather than attempting to model this process formally, we pursue a strategy of estimating reduced-form equations of the form:

$$(3) \quad P_i = F^i(Gg, Y, A, N, Z, CB, d, B_i), \quad i = 1, 2, \dots, 9.$$

Here  $G$  is the annual percentage change in state aid received by the school district; this is multiplied by the base-year share of state aid in the district's budget ( $g$ ) to allow the effects of percentage changes in

aid to depend upon aid's initial "importance" to the district.  $Y$  and  $A$  are the percentage changes in income and the full value of property in the district, respectively; they are measures of changes in the district's ability to pay for education.<sup>6</sup>  $N$  is the percentage change in student enrollment in the district.  $Z$  is a vector of sociodemographic variables expected to influence the community's "taste" for education and hence the various outcomes (e.g., community education level, student test scores, percent of households with children).  $CB$  is a vector of collective bargaining contract provisions (to be discussed below), while  $d$  is a dummy variable that indicates whether the school district is a "city" school district where tax rates are set by the school board (subject to constitutional tax limitations) rather than by the voters in an annual budget referendum. Finally,  $B_i$ , which differs for each outcome, is a measure of the base-period position of the district on a variable relating to the outcome.

A description of the specific variables included in each equation and their sources are found in the notes to table 9.1. As indicated there, we have collected data from a variety of sources for over 700 school districts in New York State for a five-year period (1978–79 to 1982–83). Since the outcome variables are expressed as changes, a maximum sample size of roughly 2,800 observations exists. However, due to missing data and problems, described below, actual sample sizes are much smaller.

The teacher salary variables were available only for school districts represented by the New York State United Teachers, an AFL–CIO affiliate, and hence districts represented by National Education Association (NEA) locals were excluded from the wage equations. These salary data had to be hand-coded from printed material, and many gaps in the data further reduced sample sizes. In addition, one might argue that since teacher contracts are often multiyear in nature, the process governing the outcomes may differ in years when collective bargaining negotiations took place. Consequently, results are presented below for both year-district observations when negotiations took place (table 9.1) and all observations (table 9.2). In the latter case, a dummy variable for whether negotiations took place in the year is included as a separate explanatory variable.<sup>7</sup>

Three collective bargaining contract provision variables are included in the analyses.<sup>8</sup> The first two capture the presence of employment-related provisions in the agreement, while the third represents a measure of bargaining strength. The first variable indicates the presence or absence of a provision governing staff reductions. The second variable indicates the presence or absence of a provision affecting the determination of class size. Together, the presence of these variables capture the extent to which the collective bargaining agreement

constrains employer discretion over the determination of employment levels: staff reduction procedures affect the level of employment directly, while class size provisions affect employment levels indirectly. The third variable is a contract strength index that is meant to capture the relative bargaining power of the union. It is the sum of the number of times that other provisions that unions might want in a contract appear (with a maximum score of 58). *Ceteris paribus*, the higher the contract index the more bargaining power the union has and thus the more favorably the outcomes in equation (3) will be to the union.

The city school district dummy variable is included to test whether the way tax rates are set influences the growth rate of taxes and/or the other outcome variables. One's intuition is that when voters directly vote on tax increases that the rate of increase is likely to be lower.

The measure of the base period salary positions of teachers ( $B_i$ ) is taken to be the initial category (BAmin, BAmx, MAmin, MAmx) salary in the district relative to the comparable category's salary average across districts in the county. For all other outcomes, the base period variable is taken to be the initial level of the variable. We expect that the phenomenon of "regression to the mean" will cause each of these base period variables to be negatively related to the percentage change in the outcome.

Finally, among the sociodemographic variables included in the analyses was an index of student test scores in the district relative to the statewide average during the 1979–80 to 1981–82 period. In each of the three years covered by this period, all third and sixth graders in New York State were given standardized math and reading tests. A "state reference point" was established for each test in each year; students who scored below this point were deemed to have special needs and to require remedial help. Letting  $S(i, j, t)$  be the proportion of students in district  $i$  who scored below the state reference point on test  $j$  in year  $t$  and  $S(A, j, t)$  the comparable proportion statewide for test  $j$  in year  $t$ , we define a district's relative test score index as

$$(4) \quad R_i = \sum_t \sum_j [S(i, j, t)/S(A, j, t)] ,$$

where  $t = 79-80, 80-81, 81-82$  and  $j = 3R, 3M, 6R, 6M$ .

Low scores for  $R_i$  indicate districts whose students performed better on the standardized tests.

## 9.4 Empirical Results

Table 9.1 presents estimates of the change in outcome equations, with the sample restricted to year-observation combinations in which



**Table 9.1**      **Change in Outcome Equations: Restricted to Observations Where Negotiations Took Place in Year (absolute value  $t$  statistic)**

	$P_1$	$P_2$	$P_3$	$P_4$	$P_5$	$P_6$	$P_7$	$P_8$	$P_9$
$C$	0.070 (2.2)	0.082 (2.1)	0.043 (1.8)	0.216 (5.5)	-0.009 (0.2)	0.119 (3.5)	0.012 (0.3)	0.021 (0.3)	0.076 (0.7)
$X1$	-0.045 (1.7)								
$X2$		-0.034 (1.4)							
$X3$			-0.010 (0.6)						
$X4$				-0.102 (3.5)					
$X5$					-0.034 (5.1)				
$X6$						-2.003 (7.2)			
$X7$							-0.947 (2.5)		
$X8$								-21.616 (7.7)	
$X9$									-7.060 (3.6)
$X10$	0.001 (0.3)	0.008 (1.0)	-0.001 (0.3)	-0.000 (0.0)	-0.012 (1.3)	-0.010 (1.5)	0.012 (1.1)	-0.005 (0.2)	-0.017 (0.6)
$X11$	-0.040 (1.4)	-0.154 (3.0)	-0.053 (1.9)	-0.141 (3.0)	0.077 (1.3)	0.118 (2.5)	0.093 (1.3)	0.539 (3.2)	-0.277 (1.5)
$X12$	0.010 (0.4)	-0.072 (1.8)	0.003 (0.1)	-0.102 (3.0)	0.130 (2.7)	0.003 (0.1)	0.004 (0.1)	-0.194 (1.5)	-0.154 (1.1)
$X13$	0.000 (1.3)	0.000 (0.5)	0.000 (1.1)	0.001 (2.1)	0.000 (0.2)	0.000 (0.4)	-0.001 (1.9)	0.005 (2.5)	0.006 (2.9)
$X14$	0.011 (2.0)	0.007 (0.7)	0.014 (2.6)	-0.002 (0.3)	-0.027 (2.2)	-0.006 (0.6)	-0.020 (1.4)	0.001 (0.0)	0.006 (0.2)
$X15$	0.046 (0.6)	0.210 (1.5)	0.041 (0.6)	-0.103 (0.9)	0.228 (1.3)	0.201 (1.5)	0.377 (1.8)	-0.769 (1.6)	0.299 (0.6)
$X16$	0.014 (3.9)	0.044 (7.2)	0.015 (4.3)	0.021 (3.7)	0.037 (5.4)	-0.006 (1.1)	-0.000 (0.0)	0.007 (0.4)	-0.071 (3.4)
$X17$	0.020 (5.2)	0.035 (5.9)	0.019 (5.3)	0.033 (5.8)	0.012 (1.8)	-0.012 (2.1)	-0.017 (1.9)	0.008 (0.4)	-0.074 (3.3)
$X18$	0.017 (3.5)	0.085(10.4)	0.017 (3.7)	0.057 (7.5)	-0.005 (0.5)	0.003 (0.5)	0.016 (1.3)	-0.020 (0.7)	-0.010 (0.3)
$X19$	-0.001 (0.5)	-0.003 (0.7)	-0.001 (0.2)	0.004 (1.1)	0.009 (1.8)	0.002 (0.5)	-0.006 (0.9)	-0.005 (0.3)	-0.012 (0.8)
$X20$	-0.001 (0.5)	-0.000 (0.1)	-0.004 (1.5)	0.003 (0.9)	-0.004 (0.9)	-0.001 (0.4)	0.005 (0.7)	0.005 (0.3)	0.007 (0.4)
$X21$	0.000 (0.7)	-0.000 (0.1)	-0.000 (0.9)	-0.000 (0.7)	0.000 (0.4)	-0.000 (0.9)	0.000 (0.0)	0.000 (0.4)	-0.001 (0.6)
$X22$	0.004 (0.7)	0.004 (0.4)	0.005 (0.9)	0.011 (1.2)	0.019 (1.7)	-0.001 (0.5)	0.009 (0.7)	0.015 (0.4)	0.033 (1.0)
$X23$	-0.014 (0.3)	0.106 (1.4)	-0.033 (0.8)	0.087 (1.2)	-0.145 (1.8)	-0.693(10.4)	-0.776 (7.7)	-0.737 (3.1)	-0.494 (2.0)
$X24$	-0.051 (1.4)	-0.052 (0.8)	-0.039 (1.1)	-0.069 (1.1)	-0.145 (2.0)	-0.115 (2.0)	-0.116 (1.3)	0.415 (1.9)	-0.165 (0.8)
$X25$	0.025 (1.0)	0.028 (0.6)	0.021 (0.9)	-0.009 (0.2)	-0.820(14.3)	-0.011 (0.3)	0.058 (0.9)	0.124 (0.9)	0.278 (1.8)
$\bar{R}^2/N$	0.068/424	0.228/598	0.070/412	0.271/419	0.314/718	0.180/800	0.090/751	0.096/734	0.058/675

**Table 9.1** (continued)

Sources: New York State Education Department, "Basic Educational Data System" (BEDS), school district tapes for 1978–79, 1979–80, 1980–81, 1981–82, and 1982–83 ( $P_6, P_7, P_8, P_9, X_6, X_7, X_8, X_9, X_{23}$ ).

New York State Education Department, "Financial Data System" (ST3), school district tapes for 1978–79, 1979–80, 1980–81, 1981–82, and 1982–83 ( $P_5, X_5, X_{14}, X_{24}, X_{25}$ ).

New York State Education Department, "New York State Pupil Evaluation Program" (PEP), test scores for 1978–79, 1979–80, 1980–81, 1981–82, and 1982–83 ( $X_{22}$ ).

New York State United Teachers, *Salary Schedule Rankings*, 1978–79, 1980–81, 1981–82; *Salary Schedules*, 1979–80; unpublished computer printouts, 1982–83 ( $P_1, P_2, P_3, P_4, X_1, X_2, X_3, X_4, n$ ). Information on the latter variable also came from contracts on file in the Labor-Management Documentation Center at the New York State School of Industrial and Labor Relations.

U.S. Bureau of the Census, *1980 Census of Population*, school district data file for New York State ( $X_{10}, X_{11}, X_{12}, X_{13}$ ).

U.S. Department of Commerce, Bureau of Economic Analysis, unpublished tabulations, 1978, 1979, 1980, 1981, 1982 ( $X_{15}$ ).

New York State United Teachers, "Contract Provisions," tape for 1976–77 ( $X_{21}$ ).

Notes:  $P_1$  = percentage change in the bachelor's-level minimum salary.

$P_2$  = percentage change in the bachelor's-level maximum salary.

$P_3$  = percentage change in the master's-level minimum salary.

$P_4$  = percentage change in the master's-level maximum salary.

$P_5$  = percentage change in the school district's property tax rate on full value.

$P_6$  = percentage change in the teacher/student ratio.

$P_7$  = percentage change in the nonprofessional/student ratio (nonprofessionals include secretaries, maintenance, bus drivers, school lunch workers).

$P_8$  = percentage change in the other professional staff/student ratio (other professionals include administrators, psychologists, guidance counselors, librarians).

$P_9$  = percentage change in the paraprofessional/student ratio (paraprofessionals include teaching assistants, teacher aides, pupil personnel service aides, library aides, health aides).

$X_1, X_2, X_3, X_4$  = district salary level/average salary level in the country:  $X_1$  (bachelor's minimum),  $X_2$  (bachelor's maximum),  $X_3$  (master's minimum),  $X_4$  (master's maximum).  
 $X_5, X_6, X_7, X_8, X_9$  = level at the start of the period of the outcome variable:  $X_5$  (school district's tax on full value),  $X_6$  (teacher/student ratio),  $X_7$  (nonprofessional/student ratio),  $X_8$  (other professional staff/student ratio),  $X_9$  (paraprofessional/student ratio).  
 $X_{10}$  = percent urban residents of the school district in 1979.  
 $X_{11}$  = percent nonwhite residents of the school district in 1979.  
 $X_{12}$  = percent of households in the school district with children at home in 1979.  
 $X_{13}$  = median family income in the school district in 1979 (in thousands).  
 $X_{14}$  = 1 = city school district where school board sets tax rate; 0 = voters vote on tax rate in annual referendum.  
 $X_{15}$  = percentage change in per capita personal income in the county between the calendar years.  
 $X_{16}$  = 1 = 1980–81 academic year; 0 = otherwise  
 $X_{17}$  = 1 = 1981–82 academic year; 0 = otherwise  
 $X_{18}$  = 1 = 1982–83 academic year; 0 = otherwise  
 $X_{19}$  = 1 = class size provision is in the teachers' contract; 0 = no provision.  
 $X_{20}$  = 1 = reduction-in-force provision is in the teachers' contract; 0 = no provision.  
 $X_{21}$  = index of number of provisions present in the teachers' contract (mean = 20, variance = 24 in the sample).  
 $X_{22}$  = index of student test scores in the district relative to statewide average during the 1979–80 to 1981–82 period (1 = mean, low index equals higher test scores; see text).  
 $X_{23}$  = percentage change in enrollment in the district.  
 $X_{24}$  = percentage change in state aid received by the district multiplied by the initial share of state aid in the district's budget.  
 $X_{25}$  = percentage change in the full value of property in the school district.  
 $n = 1$  = negotiations with teachers over salary took place in the year; 0 = no negotiations.

contract negotiations took place. Table 9.2 presents similar estimates without this restriction on the sample; not surprisingly, sample sizes in the latter table are typically twice as large (many teachers' contracts in New York State were for two years during the period). The estimates in the latter table do contain a dummy variable ( $n$ ) for whether negotiations took place in the year, and both tables also include year dummy variables to control for omitted year-specific factors like the average growth of wages and prices in the state. The inclusion of these year dummies is not an innocuous modification; in principle they may capture the effects of year-to-year variations in the average rate of change of other included variables, leaving the coefficients of these variables (e.g., state aid) to capture only within-year variations of rates of change across districts. However, as we shall indicate later, excluding the year dummies rarely significantly altered the coefficients of other variables of interest (e.g., state aid).

The results in tables 9.1 and 9.2 are not particularly impressive; statistically insignificant coefficients predominate and the explanatory power of the models is not high. Nonetheless, there are a few results worth noting. First, we are much more successful in explaining salary increases for experienced teachers than we are in explaining salary increases for newly hired teachers. This is not surprising as during the period enrollments were not expanding and there was little hiring of new teachers. As such, teachers' unions paid relatively little attention to starting salaries, and in a number of cases no increases were given at that level.

Second, at the maximum salary level there did tend to be a policy of "regression to the mean," in the sense that the higher a district's salary relative to the county average, the smaller the district's increase would be. This effect was quite small though; a district whose salary level was 10 percent above the county average would moderate its increase by no more than 1 percent. Similar results hold for the tax rate outcome; districts with high initial tax rates have smaller rates of growth of tax rates, *ceteris paribus*.<sup>9</sup>

Third, the growth of "ability to pay" measures, such as county income ( $X15$ ) and the full value of property in a district ( $X25$ ), appeared to rarely influence the outcome variables. The only exception was the district's tax rate on full value ( $P5$ ); indeed one cannot reject the hypothesis that a 10 percent increase in property values was associated with an equivalent percent decrease in the tax rate.

Fourth, contrary to our expectations, city school districts ( $X14$ ) in which the school board sets the tax rate tended to have lower rates of tax rate increase than districts in which voters approved the tax rate at an annual budget referendum. Quantitatively, however, this effect was very small, less than 0.03 percent a year.

**Table 9.2**                      **Change in Outcome Equations: All Observations<sup>a</sup> (absolute value *t* statistic)**

	<i>P</i> <sub>1</sub>	<i>P</i> <sub>2</sub>	<i>P</i> <sub>3</sub>	<i>P</i> <sub>4</sub>	<i>P</i> <sub>5</sub>	<i>P</i> <sub>6</sub>	<i>P</i> <sub>7</sub>	<i>P</i> <sub>8</sub>	<i>P</i> <sub>9</sub>
<i>C</i>	0.036 (1.8)	0.030 (1.2)	0.052 (3.1)	0.142 (5.8)	0.019 (0.8)	0.121 (5.1)	0.055 (1.8)	0.227 (3.1)	−0.010 (0.1)
<i>n</i>	−0.003 (2.6)	−0.002 (0.8)	−0.004 (2.8)	−0.006 (2.5)	−0.001 (0.2)	−0.002 (0.7)	−0.008 (2.0)	0.008 (0.9)	−0.011 (1.2)
<i>X</i> <sub>1</sub>	0.013 (0.8)								
<i>X</i> <sub>2</sub>		0.009 (0.5)							
<i>X</i> <sub>3</sub>			−0.005 (0.4)						
<i>X</i> <sub>4</sub>				−0.061 (3.4)					
<i>X</i> <sub>5</sub>					−0.027 (6.2)				
<i>X</i> <sub>6</sub>						−1.985(10.0)			
<i>X</i> <sub>7</sub>							−1.500 (6.1)		
<i>X</i> <sub>8</sub>								−21.990(11.4)	
<i>X</i> <sub>9</sub>									−10.009 (7.8)
<i>X</i> <sub>10</sub>	0.000 (0.1)	0.010 (2.1)	0.002 (0.7)	0.004 (1.0)	−0.011 (1.8)	−0.010 (2.2)	0.002 (0.2)	0.002 (0.1)	−0.037 (2.2)
<i>X</i> <sub>11</sub>	−0.011 (0.6)	−0.044 (1.3)	−0.026 (1.4)	−0.053 (1.9)	0.008 (0.8)	0.098 (3.0)	0.026 (0.5)	0.243 (2.1)	0.104 (0.8)
<i>X</i> <sub>12</sub>	−0.001 (0.0)	−0.041 (1.6)	−0.005 (0.4)	−0.031 (1.4)	0.104 (3.2)	0.005 (0.2)	0.006 (0.1)	−0.272 (3.0)	−0.047 (0.5)
<i>X</i> <sub>13</sub>	0.000 (1.4)	0.000 (0.4)	0.000 (1.3)	0.000 (0.4)	−0.000 (0.5)	0.000 (0.0)	0.000 (1.0)	0.005 (3.7)	0.006 (4.4)
<i>X</i> <sub>14</sub>	0.003 (0.9)	−0.002 (0.4)	0.005 (1.3)	0.001 (0.1)	−0.017 (2.0)	−0.007 (1.1)	−0.003 (0.3)	−0.022 (1.0)	−0.017 (0.7)
<i>X</i> <sub>15</sub>	−0.069 (1.3)	0.088 (0.9)	−0.011 (0.2)	−0.095 (1.2)	0.250 (2.2)	0.083 (0.9)	0.364 (2.5)	−0.040 (0.1)	0.313 (1.0)
<i>X</i> <sub>16</sub>	0.009 (4.2)	0.028 (7.0)	0.009 (3.6)	0.014 (4.3)	0.043 (9.3)	0.000 (0.0)	−0.000 (1.7)	0.023 (1.7)	−0.067 (4.7)
<i>X</i> <sub>17</sub>	0.018 (7.8)	0.027 (6.8)	0.018 (7.5)	0.032 (8.7)	0.014 (2.7)	−0.004 (1.1)	−0.026 (0.4)	−0.001 (0.1)	−0.063 (4.0)
<i>X</i> <sub>18</sub>	0.014 (5.2)	0.076(14.8)	0.017 (5.7)	0.065(14.7)	−0.001 (0.3)	0.008 (1.5)	0.003 (0.5)	0.000 (0.0)	−0.017 (0.8)
<i>X</i> <sub>19</sub>	0.001 (0.8)	0.000 (0.1)	0.001 (0.6)	0.004 (1.8)	0.004 (1.2)	0.003 (1.2)	0.002 (0.3)	0.002 (0.2)	0.007 (0.6)
<i>X</i> <sub>20</sub>	0.002 (1.0)	0.003 (1.2)	0.002 (1.2)	0.002 (1.0)	−0.003 (1.0)	−0.004 (1.2)	0.005 (1.0)	0.007 (0.7)	0.004 (0.4)
<i>X</i> <sub>21</sub>	−0.000 (1.5)	0.000 (0.2)	−0.000 (2.0)	−0.000 (0.9)	0.000 (0.0)	−0.001 (1.8)	−0.001 (2.9)	0.000 (0.3)	−0.000 (0.1)
<i>X</i> <sub>22</sub>	0.006 (1.5)	0.006 (0.9)	0.006 (1.6)	0.004 (0.8)	0.011 (1.5)	0.006 (0.9)	−0.001 (0.1)	0.018 (0.8)	0.024 (1.0)
<i>X</i> <sub>23</sub>	0.014 (0.5)	0.059 (1.3)	0.016 (0.6)	0.033 (0.8)	−0.029 (0.5)	−0.717(15.3)	−0.792(11.5)	−0.436 (2.8)	−0.723 (4.3)
<i>X</i> <sub>24</sub>	−0.024 (1.1)	−0.049 (1.2)	−0.007 (0.3)	−0.028 (0.7)	−0.081 (1.5)	−0.062 (1.5)	0.004 (0.1)	0.018 (0.1)	0.154 (1.0)
<i>X</i> <sub>25</sub>	−0.001 (0.1)	0.032 (1.1)	0.000 (0.0)	−0.015 (0.6)	−0.860(21.5)	−0.016 (0.6)	0.017 (0.3)	−0.070 (0.7)	0.088 (0.8)
$\bar{R}^2/N$	0.095/922	0.239/1,205	0.100/893	0.358/904	0.321/1,504	0.168/1,664	0.111/1,553	0.084/1,509	0.081/1,390

<sup>a</sup>See notes to table 9.1 for variable definitions.

Fifth, the results in table 9.2 suggest that teacher salary increases were actually marginally lower in the years that contracts were negotiated than they were in second and third years of existing contracts. This may reflect the well-known preferences of management to “back-load” salary increases in multiyear contracts to reduce the present value of the cost.

Finally, we turn to the effects of changes in state aid to education—the primary focus of our study. Table 9.3 summarizes the aid coefficients from tables 9.1 and 9.2 as well as comparable coefficients that came from models that excluded the year dummy variables and, in the case of the “whole sample results” the negotiations dummy. Exclusion of the year dummies allow us to test if their presence captures some of the effects of across-year variations in increases in aid to education.

Rows A1, A2 and B1 to B4 of table 9.3 report estimates of the effects of changes in state aid when such changes are treated as exogenous. Although these coefficients are often insignificant and/or differ across specifications, some tentative conclusions can be drawn. Changes in state aid levels did *not* appear to influence teacher salary increases ( $P1$ ,  $P2$ ,  $P3$ ,  $P4$ ). There is some evidence in the specifications that include the year dummy variables that they negatively affected tax rate growth; however, this relationship was far from one to one. Unexpectedly, in some specifications increases in aid were associated with *decreases* in teacher/student ratios, but *increases* in other professional/student ratios.

Of course, as noted in section 9.2, changes in state aid to school districts in New York State were not truly exogenous during the 1978–79 to 1982–83 period. Rather they depended each year on (among other things) changes in the district’s full value of property and enrollment, changes in the district’s income level (after 1980–81), whether the district was a city school district, and “save harmless” provisions, with the effect of each of these variables often varying across years. Treating aid changes as being exogenous may distort our estimates, given these facts.

To address this problem, table 9.4 reports estimates of two simple specifications used by us to analyze the determinants of the percentage change in state aid. In the first, percentage changes in aid are regressed on year dummy variables and these variables interacted with the city school district dummy, the percentage change in assessed value, the percentage change in enrollment, and the 1979 income level in the community. The second attempts to approximate the existence of “save harmless” provisions by adding a dummy variable if the percentage change in enrollment in the year is negative and interacting one minus that variable with the changes in full value of district property and enrollment, and with income.<sup>10</sup>

**Table 9.3**      **Effects of State Aid Changes on Outcomes: Various Specifications<sup>a</sup> (absolute value *t* statistics)**

Specification [number of observations]	<i>P</i> 1 [425]	<i>P</i> 2 [599]	<i>P</i> 3 [413]	<i>P</i> 4 [420]	<i>P</i> 5 [728]	<i>P</i> 6 [801]	<i>P</i> 7 [752]	<i>P</i> 8 [735]	<i>P</i> 9 [676]
<b>A) Contracts Negotiated in the Year</b>									
A1) Include Year Dummies	−0.051 (1.4)	−0.052 (0.8)	−0.039 (1.1)	−0.069 (1.2)	−0.145 (2.0)	−0.115 (2.0)	−0.116 (1.2)	0.415 (1.9)	−0.165 (0.8)
A2) Exclude Year Dummies	−0.057 (1.5)	−0.022 (0.3)	−0.040 (1.1)	−0.113 (1.8)	−0.081 (1.0)	−0.123 (2.2)	−0.108 (1.2)	0.428 (2.0)	−0.241 (1.1)
A3) Include Year Dummies (IV1)	0.066 (0.5)	0.071 (0.3)	0.119 (1.0)	0.007 (0.0)	−0.122 (0.5)	−0.951 (4.3)	−0.490 (1.5)	−0.156 (0.2)	−2.216 (2.9)
A4) Include Year Dummies (IV2)	0.279 (2.6)	0.014 (0.1)	0.138 (1.4)	0.061 (0.4)	0.189 (0.9)	−0.762 (4.5)	−0.293 (1.1)	−0.474 (0.7)	−1.492 (2.5)
	[923]	[1,206]	[894]	[905]	[1,504]	[1,665]	[1,554]	[151]	[1,391]
<b>B) All Years' Data</b>									
B1) Include Year and Negotiations Dummies	−0.024 (1.1)	−0.049 (1.2)	−0.007 (0.3)	−0.028 (0.7)	−0.081 (1.5)	−0.062 (1.5)	0.004 (0.1)	0.018 (0.1)	0.154 (1.0)
B2) Exclude Negotiations Dummies	−0.019 (0.8)	−0.017 (0.4)	−0.005 (0.2)	−0.045 (1.1)	0.019 (0.3)	−0.060 (1.5)	−0.013 (0.2)	0.073 (0.5)	0.046 (0.3)
B3) Exclude Year Dummies	−0.034 (1.6)	−0.030 (0.7)	−0.029 (1.3)	−0.023 (0.7)	−0.103 (2.1)	0.050 (1.3)	−0.034 (0.5)	0.090 (0.6)	0.085 (0.6)
B4) Neither Included	−0.026 (1.1)	−0.004 (0.1)	−0.024 (1.0)	−0.038 (1.0)	−0.006 (0.1)	−0.049 (1.3)	−0.048 (0.8)	0.135 (0.9)	−0.009 (0.9)

<sup>a</sup>Coefficients come from equations in tables 9.1 and 9.2 and similar equations which included the indicated dummy variables. To derive elasticities with respect to state aid, these coefficients should be divided by the share of state aid in the initial budget—approximately 40 percent in the sample—where outcomes are the percentage changes in:

*P*1 = minimum salary with bachelor's degree.

*P*2 = maximum salary with bachelor's degree.

*P*3 = minimum salary with master's degree.

*P*4 = maximum salary with master's degree.

*P*5 = school district property tax rate on full value.

*P*6 = teacher/student ratio.

*P*7 = nonprofessional/student ratio.

*P*8 = other professional/student ratio.

*P*9 = paraprofessional/student ratio.

IV1(IV2) = instrument for percentage change in aid obtained from columns (1) and (2) of table 9.4.

**Table 9.4** Annual Percentage Change in State Aid Equations: Observations When Negotiations Took Place (absolute value of *t* statistics)

Explanatory Variables	(1)	Explanatory Variables	(2)
<i>C</i>	0.056 (5.6)	<i>C</i>	0.066 (3.3)
Y80	0.048 (2.6)	Y80	0.038 (2.7)
Y81	0.047 (2.5)	Y81	0.010 (1.7)
Y82	0.076 (3.9)	Y82	0.018 (3.0)
<i>X</i> 14*Y79	0.050 (3.5)	<i>X</i> 14*Y79	0.052 (3.7)
<i>X</i> 14*Y80	0.039 (2.6)	<i>X</i> 14*Y80	0.047 (3.3)
<i>X</i> 14*Y81	-0.007 (0.4)	<i>X</i> 14*Y81	-0.007 (0.5)
<i>X</i> 14*Y82	-0.009 (0.5)	<i>X</i> 14*Y82	0.008 (0.5)
<i>X</i> 25*Y79	0.004 (0.1)	<i>X</i> 25*Y79*(1 - <i>D</i> )	-0.141 (0.5)
<i>X</i> 25*Y80	-0.097 (1.4)	<i>X</i> 25*Y80*(1 - <i>D</i> )	-0.203 (0.6)
<i>X</i> 25*Y81	-0.169 (2.0)	<i>X</i> 25*Y81*(1 - <i>D</i> )	-1.400 (4.8)
<i>X</i> 25*Y82	-0.087 (1.0)	<i>X</i> 25*Y82*(1 - <i>D</i> )	-0.053 (1.4)
<i>X</i> 23*Y79	0.270 (2.3)	<i>X</i> 23*Y79*(1 - <i>D</i> )	-0.126 (0.2)
<i>X</i> 23*Y80	0.197 (2.0)	<i>X</i> 23*Y80*(1 - <i>D</i> )	0.498 (2.0)
<i>X</i> 23*Y81	0.530 (4.1)	<i>X</i> 23*Y81*(1 - <i>D</i> )	0.321 (0.3)
<i>X</i> 23*Y82	0.198 (1.5)	<i>X</i> 23*Y82*(1 - <i>D</i> )	0.885 (1.9)
<i>X</i> 13*Y80	-0.001 (1.2)	<i>X</i> 13*Y80	-0.001 (0.1)
<i>X</i> 13*Y81	-0.001 (0.8)	<i>X</i> 13*Y81*(1 - <i>D</i> )	0.011 (5.2)
—		<i>D</i>	-0.020 (1.0)
$\bar{R}^2/N$	0.083/1,001		0.108/1,001

Note: *C* = intercept term.

*Y<sub>j</sub>* = 1 = change from academic year 19*j* - 1 to 19*j* to academic year 19*j* to 19*j* + 1;  
0 = other.

*D* = 1 = percentage change in enrollment was negative, 0 = not negative.

*X*13, *X*14, *X*23, *X*25 are as defined before.

The estimates in table 9.4 can then be used to obtain instruments (IV1 and IV2) for the percentage change in state aid in each district, these estimated values interacted with the initial share of state aid in the district's budget, and then the outcome equations reestimated using the instruments rather than the actual values of percentage changes in state aid. Rows A3 and A4 of table 9.3 contain the estimated state aid coefficients from equations estimated for the "negotiations only" sample when year dummies were included, along with the instruments for percentage change in state aid. Unfortunately, these results do differ substantially from the OLS ones. While in the preferred specification (IV2, row A4) there is evidence that higher state aid was associated with higher bachelor's level entry salaries, we no longer observe increased state aid displacing increases in the tax rate. Moreover, increases in state aid now appear to be negatively associated with *both* teacher/student and paraprofessional/student ratios. The magnitude of



the latter relationship is sufficiently large to make one question what we have found.<sup>11</sup>

## 9.5 Concluding Remarks

Sometimes the best laid plans of mice and men (and economists) go astray. To be blunt, the results presented above shed very little light on the effects of changes in state aid and other financial variables on teacher salaries, tax rates, and staff/student ratios. While there was some evidence that aid increases moderate tax rate increases, this relationship was not sufficiently robust across different model specifications to draw firm conclusions.

There are many possible explanations for our failure to find systematic significant effects of financial variables. There were *many* errors in the underlying financial data we used, which we tried to correct but may not have always succeeded. School district residents' income was unavailable, save for 1979, so instead we had to use county income as a proxy. Parts of aid increases were often tied to specific uses (e.g., textbooks, transportation, special needs), and our use of total state aid rather than general operating aid may have distorted our findings.

More importantly, it is possible that school districts did not make major allocation decisions based on changes in financial variables that were thought to be uncertain to persist in the future. For example, granting teachers a large salary increase in a year of generous aid increases would come back to haunt a district if aid remained constant or fell in the next year. As such, we may well have performed the wrong conceptual experiment. Our quasi-experimental design may not have been appropriate to capture what the effects would be of a "permanent" federal program that mandated increased aid to education.

In fact, while year-to-year average percentage increases in state aid varied during the sample period, the average share of state aid in total school district revenue remained roughly constant at 40 percent.<sup>12</sup> Changes in state aid formulas during the period *did* serve to redistribute state aid across school districts each year, however the aid changes were so weakly correlated across school districts over time that for all practical purposes above, or below, average increases were probably treated as random events.<sup>13</sup> As such, they probably affected things like the timing of capital expenditures and the issuance and retirement of debt much more than they did the outcomes on which we have focused in this paper.

Lest we appear too pessimistic, however, we hasten to stress that our paper has found some results, primarily relating to more "institutional" variables, that are of interest. For example, teacher salary increases tended to be smaller in years when contracts were negotiated;

school districts seemed to be successful in “backloading” wage increases in multiyear contracts. Or to take another example, city school districts, where elected school boards set the tax rate, appeared to have *lower* tax rate increases than other districts. In addition, we observed a regression to the mean phenomenon as school districts whose teachers’ salaries were above the county average tended to have lower rates of salary increase. The latter result is exactly what one would expect to see with a system of impasse resolution (mediation and fact finding), where neutrals place a weight on comparability in making decisions.<sup>14</sup> While we attempted to obtain data on whether each negotiation went to impasse in order to test whether comparability considerations mattered primarily in negotiations that went to impasse, unfortunately such data were not available.

Finally, it is interesting to note that state legislatures have begun to realize what we have found econometrically; namely, that past state aid increases to school districts (at least in New York State) have not been used to increase teachers’ salaries. As a result, recently enacted laws in a number of states have provided increased state aid earmarked for specified higher minimum salaries for teachers (e.g., New Jersey) or increased aid for general teachers’ salaries, with school districts and teachers’ unions to negotiate how these funds are to be allocated (e.g., New York).<sup>15</sup> Whether these targeted programs actually serve to increase teachers’ salaries above the level that would have existed in their absence, especially in the long run, is a subject worthy of future empirical investigation.

## Notes

1. See Ehrenberg and Schwarz (1987) and Lipsky (1982) for surveys of the teacher compensation literature.

2. Examples of studies on the effects of grants on public school expenditure levels are Denzau (1975) and Feldstein (1975). Studies on determinants of cross-section variations in expenditure shares include Carroll (1976) and Monk (1984).

3. Much of the discussion in this section is derived from our reading of New York State Education Department (1978, 1980) and New York State Division of the Budget (1979, 1981, 1982). We are grateful to David Monk for calling this material to our attention.

4. The following table, which lists the values of  $E_L$  and  $E_H$  each year and their percentage changes from the previous year (in parentheses), illustrates the variability in the percentage changes over time.

	1978-79		1979-80		1980-81		1981-82		1982-83	
$E_L$	\$1,450	\$1,500	(3.4%)	\$1,600	(6.7%)	\$1,650	(3.1%)	\$1,885	(14.2%)	
$E_H$	\$1,500	\$1,550	(3.3%)	\$1,700	(9.7%)	\$1,885	(10.9%)	\$2,155	(14.3%)	

5. Nonprofessional staff includes secretaries, maintenance workers, bus drivers, and school lunch workers. Other professional staff include administrators, psychologists, guidance counselors, and librarians. Paraprofessionals include teaching assistants, teacher aides, pupil personnel service aides, library aides, and health aides.

6. In actuality, annual income data were available only at the county level.

7. Whether a contract negotiation took place in a year was obtained from information in the wage data sources and a search of teachers' contracts on file in the data archives of the Labor-Management Documentation Center of the New York State School of Industrial and Labor Relations.

8. These collective bargaining provision variables were available on tape only for the 1975–76 academic year and thus represent the strength of the contract prior to the first year in the sample. We are grateful to Randall Eberts of the University of Oregon for providing these data. They have previously been used in Eberts and Stone (1986).

9. The large negative coefficients of the initial level of the outcome variable in columns *P6* to *P9* are undoubtedly biased in a negative direction since in each case were are regressing the log ( $O_t/O_{t-1}$ ) on  $O_{t-1}$  (where  $O$  represents an outcome).

10. In specification 1 district income was *not* interacted with the 1979–80 year dummy because income did *not* enter the aid allocation formula until the next year. Similarly, in specification 2 the interaction of income and the 1980–81 year dummy was not further interacted with *D* because the “save harmless” provisions did *not* apply to aid based on district income in 1980–81. Deflating median family income by the proportion of households with children at home (to approximate a persistent income measure) did not appreciably alter any of the estimates. Income for 1979 in the district was used throughout because it was the only year that district (as opposed to county) income data were available.

11. One further extension warrants being briefly reported here. During the period covered by the study, enrollment was declining in many school districts in New York State; indeed in roughly 80 percent of the district/year observations in our sample enrollment fell. Discussants of previous drafts of our paper have suggested that the response of school districts to changes in state aid may differ between increasing and decreasing enrollment districts. (See Calvin, Murnane, and Brown 1985 for evidence that in Michigan the response of school district expenditure levels to enrollment changes differed between increasing and decreasing enrollment districts.)

To test for this possibility, the equations that underlie rows B1 and B3 of table 9.3 were reestimated for both increasing enrollment and decreasing enrollment subsamples of school district–year observations. The patterns of results observed were very similar to those reported in table 9.3 with the vast majority of coefficients again proving statistically insignificant. The absolute magnitudes of the coefficients tended to be larger for the increasing enrollment districts, but these differences across enrollment change types were all statistically insignificant.

12. More precisely the shares of state aid in total school district revenue in New York State (excluding New York City) were 39.9, 39.9, 39.8, and 40.4, respectively, for 1979–80, 1980–81, 1981–82, and 1982–83. See New York State Office of the Comptroller (1985, table C).

13. For the roughly 700 school districts in our sample, the computed correlations of total and per student state aid changes (from the previous academic year) across school districts over time were as follows:

Total Aid				Per Student Aid		
1980-81	0.221			1980-81	0.052	
1981-82	0.151	-0.202		1981-82	0.175	-0.096
1982-83	-0.011	0.060	-0.102	1982-83	-0.022	-0.048
1979-80				1979-80		
	1980-81	1981-82			1980-81	1981-82

14. Previous studies of actual public sector labor markets have found that when *arbitration* statutes are present area wage differentials tend to be compressed. See Ehrenberg and Schwarz (1987) for citations to these studies.

15. For brief discussions of the New York and New Jersey programs, see David Dunlap (1986) and Alfonso Narvaez (1985), respectively. These programs raise a host of other issues including their effects on mandated and bargained fringe benefit costs, on the seniority structure of teachers' salaries, and on collective bargaining in education, per se, which we do not discuss here.

## References

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