

# Manhattan Institute Study Provides Bogus Interpretation of Massachusetts Prop 2 ½

**Bruce D. Baker**

[educpolicy@gmail.com](mailto:educpolicy@gmail.com)

[schoolfinance101.wordpress.com](http://schoolfinance101.wordpress.com)

News reports this week touted a Manhattan Institute Study supported by the Common Sense Institute of New Jersey. The “study” (using the term loosely) can be found here:

[http://www.manhattan-institute.org/html/cr\\_62.htm#05](http://www.manhattan-institute.org/html/cr_62.htm#05)

The “study” provides no reference to the vast body of peer-reviewed literature in high quality journals that has addressed the effects of tax and expenditure limits on public expenditures and consequences for public sector service quality. Instead, the “study” pretends to provide definitive evidence, on its own, to a question the authors apparently assume has not already been addressed by more competent researchers. Sadly for them but luckily for the general public, this question has been addressed many times over, in high quality, peer-reviewed publications.

## Existing Research on Tax and Expenditure Limits (TELs)

Below are some findings from empirical research studies on the relationship between tax limits and school quality. Perhaps the most notable examples of the effects of TELs (Tax and Expenditure Limits) are in Colorado (under their TABOR) and California (Prop 13). But, TEL’s have been implemented in a number of forms across states, including Massachusetts’ Proposition 2 ½.

This list of research findings is only a start, but illustrates an important point that choosing to limit taxes and expenditures likely means choosing to reduce service quality – increase class sizes and reduce teacher quality in particular. Again, that’s a choice. But we should be well aware of the consequences of these choices.

Other literature also suggests that while TELs reduce service quality by constraining state and local budgets, those service quality reductions are not necessarily accompanied by increased economic growth. This may be because regional economic growth is as related to regional service quality as it is to regional tax environment.

Author David Figlio in a study of Oregon’s Measure 5 (National Tax Journal Vol 51 no. 1 (March 1998) pp. 55-70) finds that: Oregon student-teacher ratios have increased significantly as a result of the state’s tax limitation.

David Figlio and Kim Rueben in the Journal of Public Economics (April 2001, Pages 49-71) find: Using data from the National Center for Education Statistics we find that tax limits systematically reduce the average quality of education majors, as well as new public school teachers in states that have passed these limits.

In a non-peer reviewed, but high quality working paper, Thomas Downes and David Figlio “find compelling evidence that the imposition of tax or expenditure limits on local governments in a state results in a significant reduction in mean student performance on standardized tests of mathematics skills.” (<http://ase.tufts.edu/econ/papers/9805.pdf>)

Context also matters. The effects of tax and expenditure limits may differ if implemented during bad rather than good economic times. Andy Reschovsky, in a 2004 article in *State and Local Government Review* (volume 36, pp. 86-102) suggests that the existence of fiscal constraints created by tax limitations could serve to exacerbate the impact of downturns on education spending, both by limiting the ability of localities to respond to state aid cuts and by shifting local revenue away from a stable source, the property tax, to less stable sources.

Of particular interest in New Jersey are the effects of Massachusetts Proposition 2 ½ implemented in 1980. A handful of studies have explored various aspects of that particular property tax limit which included an option for local communities to override the cap.

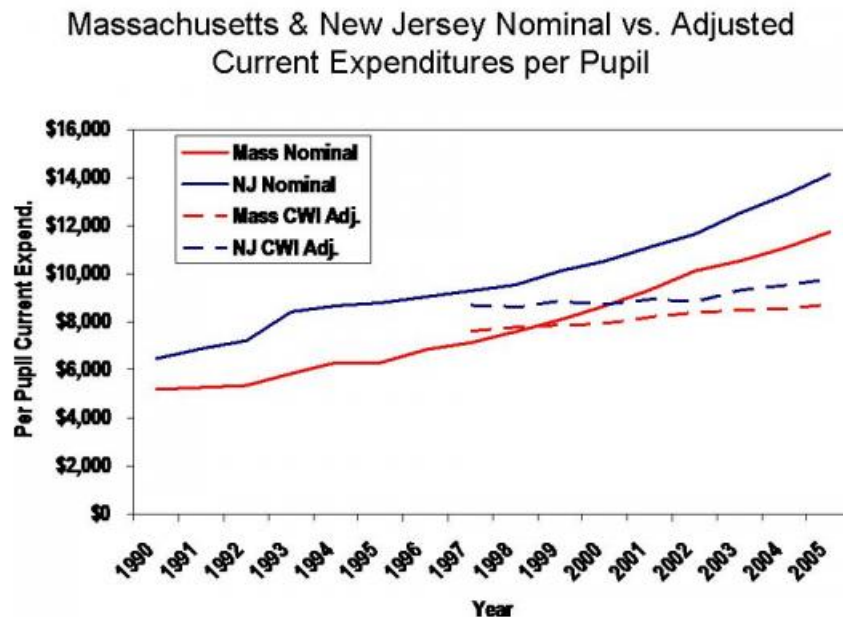
Katherine Bradbury and colleagues, in a 1998 article in the *New England Economic Review* (July/August Issue 3-20) point out several interesting direct and indirect effects of Proposition 2 ½ in Massachusetts. First, they find that the share of the potential student population served by the public schools is lower in districts in which more initial cuts were necessary when the limits were first imposed. This result suggests that the limits could increase dropout rates or could result in students switching from the public to the private sector. Second, they find that Proposition 2 ½ made constrained communities relatively less attractive to families with children, both in the early 1980s and the early 1990s. Bradbury and colleague note that the distortive effects of the property tax limits on mobility of families into and out of different municipalities and school districts were “troubling.”

Finally, in a policy brief from the Center on Budget and Policy Priorities [<http://www.cbpp.org/archiveSite/5-21-08sfp.pdf>] (which might be characterized as left leaning), an admittedly non-peer reviewed source, Phil Oliff and Iris Lav provide some useful insights regarding the transferability of Massachusetts reforms in the 1980s to New Jersey now. Among other things, Oliff and Lav point out that tax caps can be particularly harmful if implemented in a weak economy, noting that “Proposition 2 ½ took effect during a period of extraordinary economic growth — the “Massachusetts Miracle.” This is entirely consistent with the findings of Andy Reschovsky noted above. State revenues were rising, which allowed the state to boost aid to compensate for constrained property taxes, and construction was expanding, which allowed communities to raise their property tax revenue by more than 2.5 percent per year.” Further, they note that: “The adoption of Proposition 2 ½ coincided with a decline in Massachusetts’ K-12 enrollment, allowing schools to operate with less revenue.” Neither of these conditions exist in present day New Jersey.

## **Comparing Massachusetts and New Jersey Education Systems**

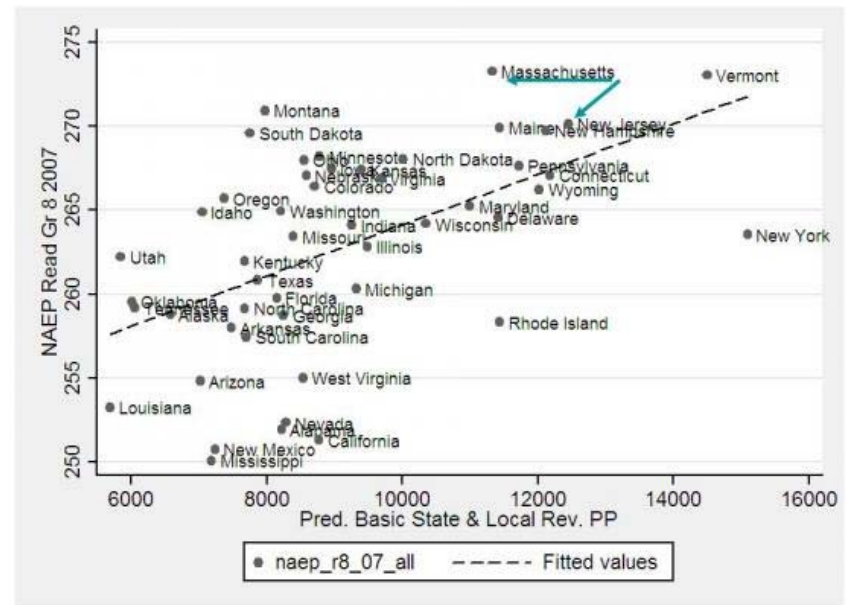
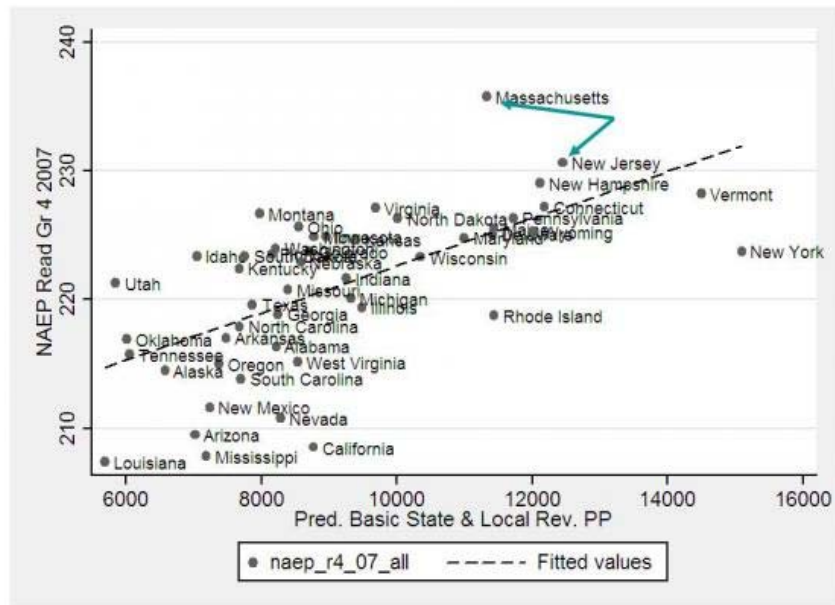
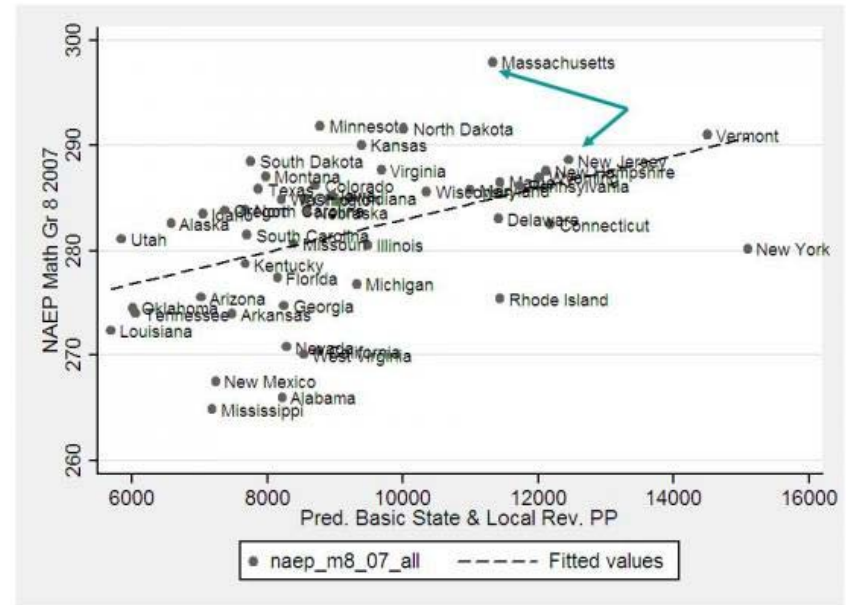
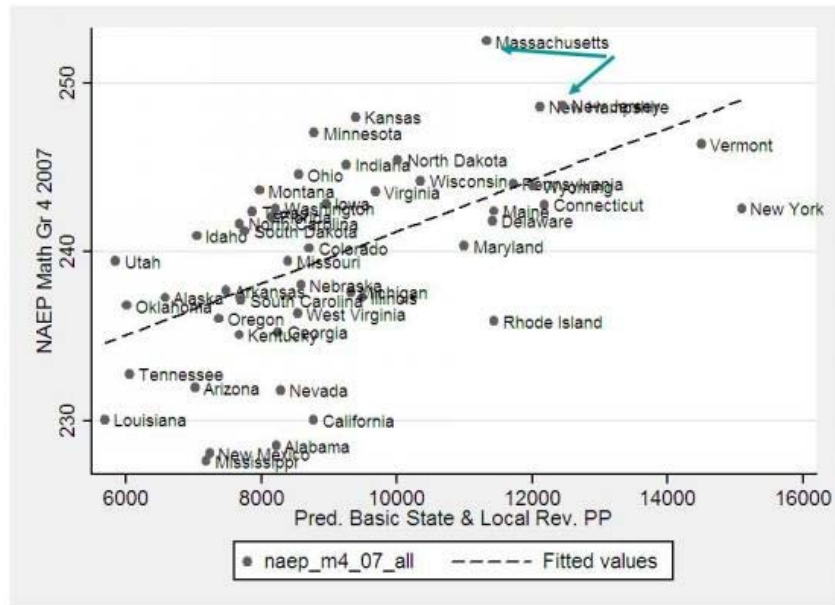
So then, how does Massachusetts accomplish this dramatic rise to the top in public education while spending so much less than New Jersey? And why didn’t the tax and expenditure limits impede the Massachusetts miracle?

Let's clear up a few basic factual errors here. First, the expenditure differences between Massachusetts and New Jersey are nowhere near as large as implied by the Manhattan Study. Here's what per pupil spending looks like between the two states with and without adjustments for regional cost variation.



Note: Based on U.S. Census Fiscal Survey (F-33) and NCES Education Comparable Wage Index to adjust for inflation and for regional variation in labor costs (differences between Mass and New Jersey)

And here's what the performance differences look like in 2007, in relation to the funding differences. Yes, Massachusetts is slightly outperforming New Jersey (more so on 8<sup>th</sup> grade math) and spending marginally less. But there is hardly a striking contrast between either the spending or the performance measures and a plethora of potential factors that might explain these differences.



So, how did those tax limits make Massachusetts schools so darn good? Well, maybe they didn't. Let's put the timeline together a little better here. The tax limits were imposed around 1980. Massachusetts schools saw significant improvements beginning in 1993. Is it possible that some other intervening factor played a role in this 13 year period?

Well, as it turns out, as towns faced fiscal constraints under Prop 2 ½ during the 1980s and as many poorer towns suffered from lagging local revenues and insufficient state support, lawsuits concerning the equity and adequacy of Massachusetts school funding were filed. Schoolfunding.info provides this summary:

"In the Massachusetts education finance case, *McDuffy v. Secretary* (1993), Massachusetts students claimed that their own less affluent school districts were unable to provide them with an "adequate" education. Based on an analysis of the Massachusetts Constitution's "Encouragement of Literature" clause, the Supreme Judicial Court concluded that the Commonwealth has an obligation to educate all of its children and held that children in less affluent communities "are not receiving their constitutional entitlement of education as intended and mandated by the framers of the Constitution." Moreover, the court adopted the guidelines set forth by the Supreme Court of [Kentucky](#) in [Rose v. Council for Better Education](#) to define the standard of education that the Commonwealth must provide.

At about the same time that the court issued its *McDuffy* decision, the legislature passed and the governor signed the Education Reform Act (ERA) of 1993, which established a "foundation budget" for each school district to be phased in over seven years."

So, in fact, Massachusetts improved its school system, in terms of both equity and adequacy as a result of legislation enacted in 1993 in response to a court order to fix a system that had fallen into disarray during the decade following Prop 2 ½! That's not the story told by the Manhattan Institute study. They infer that Prop 2 ½ itself led to improved efficiency of Massachusetts schools and that the decreased spending growth coupled with accountability pressures created the improvement. The Manhattan Institute study makes absolutely no mention of the court ruling and gives minor addendum mention to the reforms that followed.

So, what do we actually learn from Massachusetts and Proposition 2 1/2 ?

- First, if you're going to impose property tax limits at all, it should be done during a strong not weak economy.
- Second, the state must be prepared to offset losses to property tax revenue with increased state aid, but this makes public school funding even more susceptible to future economic downturn.
- Third, the public should be prepared for and acknowledge the risk that service quality will decline. Class sizes will likely increase. Teacher quality may decline and student outcomes may follow.
- Fourth, judicial intervention may be required to straighten out the resultant mess in the end, to insure that all children continue to have access to equitable and adequate educational opportunities.

That's a somewhat different story than provided by the Manhattan Institute!