Rhode Island Policy Reporter

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Looking for causes

IT IS VIRTUALLY AN ARTICLE OF FAITH in Rhode Island that our education costs are high because of greedy teachers and their powerful unions. Our Governor has been railing about this for some time, not without some political success, and his predecessors were not noticably less noisy on the subject. It's true that teaching in public schools in Rhode Island is a fairly well-paid occupation. Let's trot out some of the well-worn statistics: According to the NEA — and duly reprinted by the Rhode Island Public Expenditure Council (RIPEC) — the average public school teacher in Rhode Island is paid $52.261, which is the eighth highest in the nation. This is, of course, a scandal, and the Governor (and the Assembly) use the fact as an excuse to cut funding for education.[1] Why, after all, should they spend our precious tax dollars where they will just be absorbed by those greedy teachers?

Here in Rhode Island, this is traditionally where analysis of these situations stops. But Governors have been using the teacher unions for punching bags for many years, without successfully lowering the costs at all. You'd think that after all this yelling there would be some effect. How can it be that evil unions still dominate the finances of our towns? Could there be an alternate explanation for high salaries?

While wondering, I spent a delightful afternoon recently, clicking and copying data from *CareerJournal.com*,

[1]Excuse me, "slow the increase." See page 4.

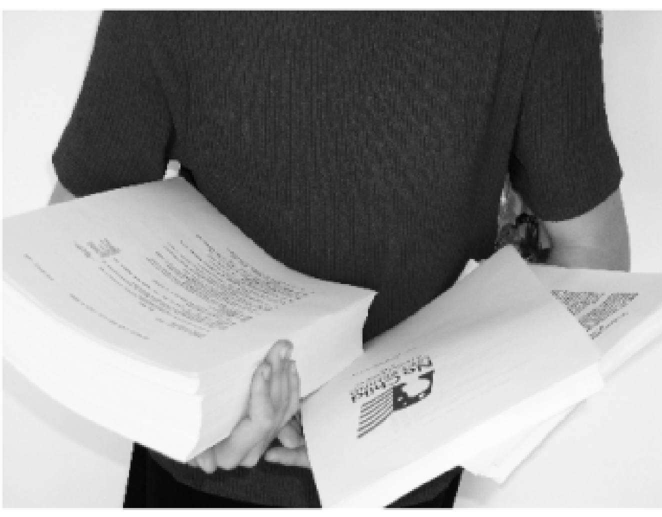

Figure 1: The No Child Left Behind (NCLB) Act is shown on the left (670 pages). The other two documents are the executive summary of the regulations imposed by the act (181 pages), and an index to those changes (125 pages). In 2003, the National Governor's Association ("bi-partisan" but majority Republican) voted to label the NCLB and Special Ed requirements "unfunded mandates." Could these be part of the recent explosion in education costs? Or should we blame the teacher unions?

	HS Teachers		Accountants		Veterinarians	
1	NJ	62,826	NJ	56,751	NJ	78,624
2	CT	62,327	DC	54,382	CT	76,106
3	AK	60,563	AK	53,222	NV	73,307
4	PA	58,643	CT	51,618	AZ	73,258
5	CA	58,533	NY	51,247	**RI**	**72,999**
6	NY	56,914	CA	50,294	CA	72,436
7	MI	55,248	**RI**	**49,969**	NY	71,213
8	**RI**	**54,725**	HI	49,945	MD	70,600
9	DC	53,449	MA	49,063	MI	70,414
10	MD	52,377	MD	48,552	DC	70,014
	...		...		...	
49	SD	35,639	WV	39,283	MT	51,216
50	ND	34,849	SD	37,170	OK	47,663
51	MS	34,485	ND	36,704	NM	46,628

Table 1: Statewide average salaries. Isn't it time the Governor spoke out about the scandalously high pay of our accountants and veterinarians? (source: *CareerJournal.com*)

a service of the Wall Street Journal. And what do you know? It seems that our teachers are not alone in occupying a high position in salary rankings. Rhode Island hosts the nation's seventh highest-paid accountants, for example, as you can see in table 1. We also have the fifth highest-paid veterinarians, the third highest-paid pharmacists, and the ninth highest-paid architects, counseling psychologists, and nurses (RNs).[2] Perhaps, then, our high salaries are simply part of the higher cost of living in the northeast.

But then the story gets more complicated. Browsing further, I discovered that our house painters are only the 15th highest-paid in the country, and that we have the 21st highest-paid cashiers, the 25th highest-paid butchers, and the 41st highest-paid fish packers. The data seemed to suggest a split between kinds of jobs, consistent enough that it seemed worth trying to quantify.

Using the list of categories on the *CareerJournal.com* site, I developed two lists of jobs. One list was for professions that seem vaguely comparable to teachers in terms of education, national average salary, and social status,[3] and the other list was for jobs that have less of all three.[4] Us-

[2]Being proprietary data, used in reports for sale on their web site, *CareerJournal.com* is not very clear about how it was gathered. There are some peculiar aspects to it (fish packing salary data from Colorado, for example). It is not, therefore, as trustworthy as peer-reviewed data from a reputable journal. But it is widely used, it does seem, on the whole, to conform to experience, and the conclusions drawn from it in this article seem not too far-fetched. At least to its author.

[3]The "professional" occupations used were Accountant, Counseling Psychologist, Clinical Psychologists, Voice Pathologist, Research Assistant, Registered Nurse, Pharmacist, Logistics Engineer, Architect, Computer Programmer, and Zoologist.

[4]The "blue-collar" occupations used were Butcher, Cashier, Cleaner, Electronic Assembly, Hair Stylist, Locksmith, Carpenter, Painter, and Fish Packer.

ing these lists of jobs, I calculated average salaries for each state, and computed state rankings for them. These are in the table to the right.

Some states are in roughly the same place on both lists. New York, New Jersey, Connecticut, Massachusetts all rank high on both lists. And these are widely known to be fairly expensive places to live. Louisiana and Oklahoma rank fairly low on both lists, and these are fairly cheap places to live. So there are no mysteries there. But look at Hawaii. It ranks 17th in the list of professional salaries, but right at the top of the blue-collar salaries. Washington, Oregon, Vermont and New Hampshire are all similar in this respect, along with Nebraska, Iowa and Kansas. In each of these states, an architect would probably find herself with a salary farther down the national ranking than the carpenter who worked for her.

For some of these, the rural nature of the state might be a plausible explanation. Maybe the professional jobs are an urban phenomenon and the demand for clinical psychologists just isn't that big in Nebraska or Kansas. But is Hawaii rural like Iowa? Idaho is largely rural, but ranks precisely the same in both lists, so it must be more than this. Undoubtedly the explanation for any state's position in these lists is a complicated one, but it seems suggestive that many of these states have a national reputation as good places to live. If someone offered you a nursing job in Hawaii — or Seattle or Burlington — it might not need as much salary to get you to take it as it might if the job was in Coeur D'Alene.

Or Dallas or Raleigh. There are also several states that tilt the other way. These are states where the professional salaries are higher, relative to the rest of the country, than the non-professional salaries. This list is dominated by the states of the south: Texas, Florida, North Carolina, Mississippi. Of the 13 states in this group, ten are in the south, and are joined by Arizona, California and, somewhat incongruously, Rhode Island.

This survey is all about private-sector employment. These are the results of millions of employers testing the waters of their local job markets, and adjusting their salaries to result. Many of the states in the cheap-blue-collar group are not union-friendly states, and most of the hard-core industrial union states (Ohio, Indiana, Illinois, Pennsylvania) are in the cheap-professional group, which suggests that unions may have something to do with these salary differentials. But this is a much more

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Box 23011, Providence, RI 02903-3011
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	Professionals		Blue-Collar	
1	NJ	64,053	HI	33,363
2	CA	62,851	NJ	31,976
3	CT	61,435	CT	31,310
4	MA	61,282	AK	31,191
5	DC	60,176	MA	30,045
6	MD	60,074	WA	29,357
7	NV	60,060	IL	29,168
8	**RI**	**59,720**	DE	29,094
9	AK	59,492	DC	29,004
10	NY	59,198	NV	28,868
11	MI	58,588	CA	28,705
12	DE	56,932	NY	28,516
13	IL	55,684	PA	27,711
14	AZ	55,680	OR	27,560
15	VA	55,358	MI	27,369
16	GA	55,323	MN	26,989
17	HI	55,231	CO	26,900
18	CO	55,141	MD	26,848
19	NC	54,849	IN	26,777
20	TX	54,734	OH	26,724
21	OR	54,552	NH	26,406
22	PA	54,415	MO	26,152
23	TN	54,110	**RI**	**25,994**
24	WA	54,105	VA	25,913
25	MN	54,096	WI	25,903
26	WV	53,906	KS	25,728
27	OH	53,878	AZ	25,445
28	WI	53,769	TN	25,396
29	FL	53,269	IA	25,294
30	IN	52,910	GA	25,153
31	MO	52,649	WY	24,968
32	NH	52,622	VT	24,708
33	UT	52,536	NE	24,635
34	ID	52,128	ID	24,611
35	MS	51,840	SC	24,333
36	AL	51,311	UT	24,299
37	ME	51,104	MT	24,161
38	SD	50,725	ME	24,075
39	AR	50,489	LA	24,004
40	LA	49,971	NC	23,983
41	WY	49,790	KY	23,967
42	VT	49,734	SD	23,850
43	SC	49,478	ND	23,841
44	NM	49,132	OK	23,753
45	KY	48,838	TX	23,502
46	IA	48,564	FL	23,466
47	OK	48,361	WV	23,353
48	ND	48,171	NM	22,634
49	NE	48,039	AR	22,562
50	KS	47,308	AL	22,428
51	MT	46,128	MS	22,097

Table 2: Professional salaries vs. blue-collar salaries: Look at how consistent the salary rank is for New Jersey, Connecticut and Massachusetts. Compare this to states like Hawaii, Washington and Iowa on the one hand, and Texas, Mississippi and Rhode Island on the other. Are professionals here paid too much or cashiers not enough?

complicated and interesting story than the simple narrative of powerful government employee unions extorting high pay from complacent municipal governments.

So what? The essential problem seems to be that Rhode Island is, overall, a state whose income distribution is not so far from the national average, but which is nestled among some much richer states. You can see this in the graph nearby. Why this is so is a matter of debate. It could be because of Rhode Island's rich history of low-wage labor. Once upon a time, we were to Britain what North Carolina later became to us: the low-wage haven where textile jobs fled. Maybe this latter-day salary differential is a legacy of Rhode Island's early industrial policy. And maybe not. Maybe it's just because Rhode Island is, due to its size, more urban a place than the whole of Massachusetts or Connecticut. Trying to tease out the threads of causation in something as complex as income distribution is a difficult task. The analysis here doesn't pretend to have the answer. But it *is* a complicated question, and people who pretend otherwise aren't really interested in solving real problems.

But here's one thing we learn: Many people in Rhode Island — including most of the folks in office these days — look at the picture in figure 2 and say we're a poor state because we are chasing our rich people away, and therefore we have to cut their taxes, and mow their lawns and offer them backrubs. But the evidence from the Wall Street Journal is that it might be the other way around. Perhaps we are a poor state relative to our neighbors because the blue-collar jobs around here don't pay as well as they do in neighboring states.

Perhaps RI is poorer than its neighbors because the blue-collar jobs here don't pay as well.

Professional jobs are good jobs. People are often willing to move quite a distance to take a position in an architecture firm or psychology practice. People looking for such work are likely to apply for jobs far from their homes, and move if they are successful. If they don't want to move, people commute, often long distances, for rewarding and lucrative work. It's not uncommon to find software engineers who commute to the Boston area from Rhode Island because the pay is better.[5] For jobs in this category, Providence is in essentially the same job market as Boston or New Haven, or Sharon or Stonington. Like any employer, if the state wants to hire qualified architects, it has to advertise for those positions at a salary level that will attract qualified applicants who may well be considering other positions in other states.

[5]And many others. The parking lot for the commuter trains to Boston fill up by 7:15, and it's not cashiers making the hour-long commute.

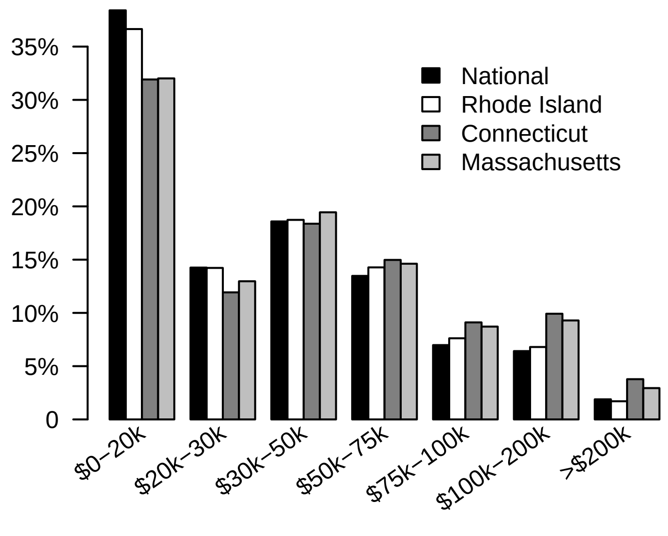

Figure 2: Distribution of AGI. The vertical axis shows the proportion of tax filers with the given income. Rhode Island is at or slightly better than the national average for the most part, but Connecticut and Massachusetts are, on the whole, richer states, with smaller proportions of poor people and higher proportions of rich ones. (Source: IRS Statistics of Income reports)

Being a cashier, on the other hand, is not a job most people would relocate for. The job market for this kind of work is much more local. It's easier for employers to resist the pressures of higher pay in other places, since the people who might fill those jobs aren't as mobile, often due to poverty, or aren't willing to commute so far for a job like that.

So here's an answer to how to deal with the high salaries earned by our teachers: raise the minimum wage. Have the state and every municipality enact and enforce living-wage legislation, where every government contract is given with the stipulation that the jobs created will be jobs that pay a living wage. Demand that large employers provide health coverage to their employees. Because we are such a small state, we may not be able to have much effect on the region, but there are a number of things Rhode Island can do to affect the local job market to push up wages to parity with our neighbors. Our policy makers always claim to be worried about parity with Massachusetts and Connecticut. Well here's a place to put their money where their mouths are.

It must be clear by now that it's worth being very skeptical of interstate comparisons and rankings. For one thing, it's not at all obvious why anyone should think that South Dakota and Rhode Island are comparable in what it takes to attract and retain a good teacher. But this is what rankings implicitly assume. Some interstate comparisons are enlightening, but hardly all. State boundaries are arbitrary products of history, not facts of nature. So what is the right level of pay for teachers? How about whatever it takes to attract and keep qualified and talented teachers? Is the amount we pay too high? Too low? Don't rely on state rankings. Go ask your local principal whether your school district's ads get responses from good candidates. If you're concerned about the quality of education, that's the only measure worth taking.

In the end, we can't change our location. Rhode Island is situated between Massachusetts and Connecticut, whether we like it or not. Unlike, say, Hawaii, the market for jobs to be filled by relatively mobile people will always have to take our neighboring states into account. Where it had to do so, the private sector has accommodated itself to this fact, as shown by *CareerJournal.com*. School departments around the state appear to have made almost exactly the same decisions about the job market as thousands of private employers in Rhode Island. It seems odd to blame them for this.

Instead of casting aspersions, the state could help, not by attempting to deny the reality of our geography, but by working to improve the situation of the people at the lower end of the employment ladder. We can have an effect on that job market, since the people in it are largely less mobile. We can't change the hand we're dealt, but we can certainly try to play it better. ■

Definition of "Cut"

The word "cut" is problematic, and should probably be banned from the policy lexicon, since people disagree about its definition. When a Governor or President cuts some program, what does that mean? Does it mean less money? Less money after you take inflation into account? Does it mean a decrease in the program, or just a decrease in the program's rate of growth?

A complaint was recently made to RIPR that the Governor's budget this year is not a cut, but contains a 2.1% *increase* in funds that go to a school's bottom line. According to the Bureau of Labor Statistics, inflation is currently running around 3.1%, and few predict it will do anything but increase over the next year, as fuel prices and health care costs continue to drive up other prices. So is this an increase or a cut?

People argue about whether some change is a "cut" or not.

All talk of inflation aside, it was crystal clear to the Governor that pension costs were going way up this year (20% increases, a bit less than a quarter of which is discretionary and could be made to vanish with the stroke of a pen, see **RIPR** issue 9) and that health insurance costs are continuing on their merry way to the heavens, too. My town's schools, for example, were hit with $1.2 million in increased pension costs, around $300,000 of which isn't necessary (but presumably enhances the Governor's case for pension reform) while the Governor's budget offers us just $50,000 more in state funding to deal with it. For this kind of largesse we should be grateful?

President Bush is currently using the same semantic obfuscation to sell his Social Security plan. "It's not a cut," say his defenders. "Just a decrease in the rate of growth." Well, one can argue points of semantics for a long time without resolution. One is more likely to find agreement on the actual outcomes of actions. So here are some outcomes. Under either system — the current one or what is presumed to be the Bush plan (it's also called the Pozen plan) — the dollar amount of my pension will be more than I'd get if I was 65 today, so the President feels free to characterize his proposal as not-a-cut. But under the current plan, I will see around 36% of my working income in my Social Security check when I retire. The Social Security trustees say the Bush plan will get me around 32%. They also say that this plan only deals with 70% of Social Security's "solvency" problem, and imply that further decreases would be necessary, say to 30%. My children, instead of receiving 36% of their income as a pension, would get around 26% or less.[6] In other words, who cares what you call it?

But who cares what you call a program change? The effect is what's important, not the name.

Meanwhile, state tax revenues are up, and the state income tax is up over 7% from last year (which was up 10% from the year before). And yet, under the Governor's budget — which isn't a cut, remember? — schools all over the state are closing to save money, teachers are being laid off everywhere. Everything you could characterize as a frill — library books, music, language classes, furniture — is on the chopping block. Really, who cares what you call it?[7] ■

Book Review

The uses of usury

Confessions of an Economic Hit Man
John Perkins, Berrett Koehler, San Francisco, 2004

One of the enduring mysteries of the late 20th century is what happened to the third world. Since 1970, poverty in most of the countries of the third world has burgeoned. Where it once seemed like the world was on the verge of wiping out poverty, it now seems like that verge has

[6] Calculations courtesy of the Social Security Administration, Office of the Chief Actuary, "Estimated Financial Effects of a Comprehensive Social Security Reform Proposal Including Progressive Price Indexing – INFORMATION" February 10, 2005

[7] A superb discussion of these considerations can be found online, at *dailyhowler.com*, a site whose analysis of the mores of our media corps is unsurpassed.

receded over the horizon.

Actually, it's not that much of a mystery. Most third world countries have fallen victim to an efficient machine, operating on behalf of financial interests in the first world. The basic mechanism is this: a third-world country borrows a ton of money from the World Bank, or directly from banks in industrialized countries. They spend it on dams or power plants or roads. In the process, they rely on construction contractors and consultants from the exact same industrialized countries to plan and build their projects. Most of the money comes right back to the country that loaned it. Much of what doesn't is siphoned off by corruption, and usually spirited away to banks in those same industrialized countries. So the money invested by the World Bank tends to flow through the countries it is intended for, instead of staying there. The country receiving the "aid" gets only a small fraction of the economic stimulus it would get if those projects were to be built and run by local firms.

John Maynard Keynes bears a great responsibility for the shape of the world's economy. It was largely his insight that government spending could be a huge stimulus for a lagging economy, and later events proved him right. The stimulus of WWII got us out of the Great Depression, the Marshall Plan brought Europe out of the WWII dumps, and the steroids of cold-war military spending is why our economy grew from just one of the big guys to the undisputed heavyweight champion of the world.

Since then, governments big and small have all spent time trying to emulate these successes, with varying results. But every time you read about the economic impact of road building, you're hearing an echo of Keynes.

The economic impact of cold war military spending on America can hardly be overstated. Firms grew from nothing, cities grew from nowhere, entire new fields of science and engineering were developed, but the new expertise, the ownership of the new companies, and the homes in these new cities, all went to Americans. It is no surprise that all this money had a huge effect on our economy.

The economic impact of military spending on America can hardly be overstated.

Now look at the mythical country of Gondwana. Gondwana wants to grow its economy, since its people are so poor. They contract loans from the World Bank for a new dam. They don't have engineers with dam-building experience, nor big construction firms, so they hire US companies to do this work. While the construction is underway, those companies hire hundreds or thousands of local workers to build scaffolding and pour concrete. But the engineers, managers, and even the foremen are all imported help. When the project is over, lots of laborers have had a good couple of years. The businesses they patronize will have done well. And now they've got this great dam, to generate lots of electricty, for what, exactly? Gondwana has no new engineering firms to build more projects. They have no new construction companies with experience in big projects. No one there has learned enough about dynamos to improve their design. The construction jobs are gone, too. But did we mention this great new dam?

In other words, a lot of these development investments should never have been made. But wasteful spending is only the good news. The bad news is that the debt still has to be repaid. US cold-war military spending went to defense companies, whose employees paid taxes on that income which was then used to pay for more planes, tanks and bombs. Gondwana can spend the money it borrows, but a large part of the resulting economic growth happens in Texas, where executives of Halliburton and other international consulting companies live.

Now Gondwana has a dam, but the construction hasn't stimulated their economy as much as it could have, and so they also have a debt they can't possibly repay. The bankers who loaned the money to Gondwana have a hold on that country that the 19th century empire-builders could only have dreamt of. *Confessions of an Economic Hit*

The Empirical Method

The usual routine of policy discourse around here seems to be that you find a villain, then beat up on them. Then beat some more. And it's important to attribute your lack of success to the villain, so no one knows you've been wasting our time. But what if you're wrong? If you're wrong about the problem, then no amount of beating will help. There's good catharsis from pounding on an opponent, but will it actually help improve our state? It's like trying to bail your boat with a pitchfork. It's certainly an evil-looking tool, but is it the right one? If being scary is the goal, it certainly will do the trick, but if keeping the ship of state from sinking is the goal, well...

Man is the personal memoir of a guy who spent the 1970's working for an international consulting company. He spent his time travelling from one third-world nation to another, producing wildly overoptimistic forecasts about runaway growth in these countries. His forecasts would serve as the justification for absurd development schemes whose only real outcomes would ultimately be overflowing Swiss bank accounts and a nation firmly shackled to the international financial order.

A lot of public investment seems to be churning only for churning's sake.

The book is not, alas, very well written. It's overwrought and melodramatic, filled with personal crises of conscience that seem not to have been acted upon at the time, along with several excuses for inaction. The alas is because the book itself seems to be an earnest act of contrition, and because it is such an important message.

After all, Keynes's essential point is that public investment *can* spur an economy to grow. But the lesson most economic policy nerds seem to have taken is that public investment *must* cause an economy to grow — no matter what it is. But this is plainly absurd. Rhode Island could invest in Powerball tickets, for example. If the only thing we're concerned about is the dollar amount spent, this investment might look just as significant as an investment in renewable energy capacity, for example. From a distance, say to a bond analyst in New York, the two might seem interchangable. But they're obviously not.

Maybe Rhode Island doesn't invest in anything quite as dopey as this, but we come awfully close: buildings to be leased by foreign companies, roads to serve businesses that do not exist and may never exist, office parks to compete with other office parks in the next town. This is the kind of spending that creates jobs for the people who build these projects, but it does little or nothing to create new capacity or to improve the skills or education of our citizens. It's churning for churning's sake: nice while it lasts, so please don't stop.

The social spending enacted by FDR failed to pull us out of the Great Depression, while the stimulus of WWII did. In economics texts, this is attributed to the much greater scale of the spending. Outfitting an army, navy and air force was a vastly bigger job than anything taken on by the WPA, the TVA, the CCC and the rest of FDR's alphabet soup. But it was also spending of a different kind. Through military spending, people were trained and research was done. Our country was transformed (for better or worse). By comparison, the New Deal programs seem more like churning.

So here is the essential problem of the third world: if you finance the churning with debt, eventually it stops. And then you're in essentially the same place you were before the churning started, but also deep in debt — big trouble. With the world's biggest economy and the taxes we draw from it, the US can finance a lot of churning for churning's sake. Rhode Island can do it, too, though somewhat less effectively. But what does it get us, and can it really go on forever? The answer to neither question is particularly clear.

Some of the anecdotes in *Confessions of an Economic Hit Man* almost make up for the shortcomings. It's fun to hear about an American naïf's visit to an underground Iranian restaurant, or a visit to the Ecuadorian aboriginals. So read it, but read it for the revealing of this simple point: Lost underneath all the macroeconomic measures we use to track economies large and small are the details of the investments made, and the details are what make all the difference. These details are not to be overlooked or lost. They are often the whole story. ■

Rhode Island Policy Reporter
Box 23011
Providence, RI 02903

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