Rhode Island Policy Reporter

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Recovering stories

HOW LONG DOES IT TAKE to recover in a recovery? That is, after someone has been laid off, how long does it take to get back where they were?

According to data from the Social Security Administration, a long time. A study published earlier this year by Till von Wachter, a Columbia economist, Jae Song of the Social Security Administration and Joyce Manchester of the Congressional Budget Office used the experience of workers laid off in the 1980-81 recession to see. The researchers found that people who were laid off suffered an immediate 30% drop in earnings, which isn't too surprising. But after a decade, their earnings were 20% below people who'd avoided a layoff. And even after 20 years, they hadn't caught up.[1] This isn't a statistical artifact, either. Only about 10% of the laid-off workers surpassed their pre-layoff earnings.

The figure below shows some of the detail. The top line is people who weren't laid off, the middle line shows people who lost their jobs, but not as the result of a mass layoff, and the bottom line is for people who were part of a mass layoff. The figure is for men, and includes people who didn't find a job at all, but figures that exclude the people who never found work and the figures for women tell essentially the same story.

[1]See *Long-Term Earnings Losses due to Mass Layoffs During the 1982 Recession: An Analysis Using US Administrative Data from 1974 to 2004*, April 2009. Find it at *http://www.columbia.edu/~vw2112/papers/mass_layoffs_1982.pdf*. There's a disclaimer on the title page that says the views are the authors' alone.

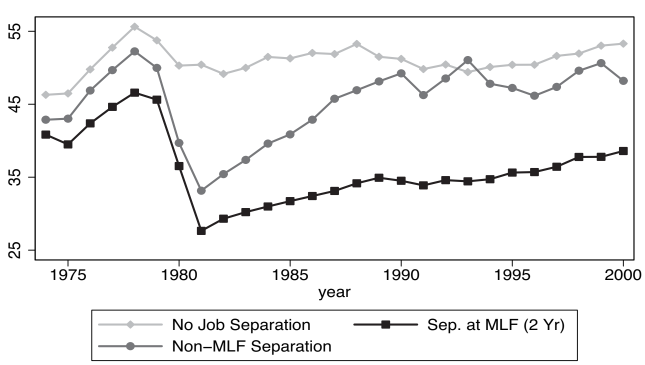

Figure 1: Annual earnings of men in stable jobs 1974-1979, over the next 20 years. The top line is men who didn't lose their jobs in 1980-81, the middle line is men who did, but not in mass layoffs (MLFs), and the bottom line is men who lost their jobs in mass layoffs. Everyone lost something in the recession that ushered in the 1980's, but the subjects of mass layoffs lost more, and recovered less, than the other groups. The salary axis on the left is in constant dollars (2000). Data from Social Security administration, compiled by von Wachter, Song and Manchester.

The researchers seem to have been very careful in constructing their study. They made sure the three populations were roughly comparable, and made up of people young enough to still be working 20 years later. They also focused their analysis on workers who had had stable employment for six years before the layoff. But because the sample they're working with is huge, they still had 74,232 records in the study, with an average age in the late 30s. Slightly more than half the sample was employed in manufacturing (including a bit more than 60% of the layoffs), and the rest of the sample came out of transportation, trade, finance, construction, services and mining.

Capital controls What do we learn from this work? For one thing, we learn that the dominant government policies of the last 30 years have likely been far more devastating to our nation than was apparent at the time. Over 30 million Americans have been laid off since the early 1980's, and that didn't happen by itself.[2]

Layoffs have a long-term effect on a worker's earnings that can last for decades.

Under the Reagan and Bush administrations, layoffs became common as corporate mergers and acquisitions skyrocketed. Calls to "restore shareholder value" led to the insider-led takeovers that characterized that era, and to the ruthless and often short-sighted amputations of entire corporate divisions to pump up a company's cash reserves, *and* the short-term prospects for its stock price.

This activity was abetted by government policy. There was lax anti-trust enforcement and also a compliant Securities and Exchange Commission that chose not to look too closely at how all the leveraged buyouts were being financed (and where the inside information came from). But most of all, there was a tax code that advantaged the bondholders of companies deep in debt over shareholders of companies operating in the black—a backdoor subsidy for the corporate raiders.

RJR Nabisco, for example, was bought for $21 billion in 1988, almost all of which was new debt. The debt payments ate up their profit, meaning their tax bill was reduced to zero. In one sense, not much changed. Around the same number of dollars were flowing out the door, but they flowed as untaxed debt payments instead of taxable profits, freeing up $683 million that had gone to tax payments the year before. Plus, by operating in the red, they could demand refunds of up to three years' previous

[2]The number is an estimate from New York Times reporter Louis Uchitelle's 2006 book, *Disposable Americans*.

taxes, about $2 billion.[3]

In the 1990's, of course, the layoff trend was exacerbated by movements in trade policy, under Presidents Bush I and Clinton, as we opened our borders to Mexico, with the North American Free Trade Agreement (NAFTA) and then the world with the Global Agreement on Tariffs and Trade (GATT) and then China. Ross Perot was widely ridiculed in 1992 for listening for the "giant sucking sound" that NAFTA would provoke, but he was substantially correct, and the layoffs continued as any production that hadn't yet been devastated was moved overseas.

Layoffs weren't an accident. They were promoted by a variety of government policies.

In addition to all this, there was the systematic gutting of protections on the right to organize, and a string of Labor Secretaries hostile to organized labor. Union representation declined from 24% of the workforce in 1979 to below 12% today. Much of that decline, of course, is because it's harder to organize a union in a world where the threat of moving production to China must be taken seriously. But again, government policies played an important part.

Ronald Reagan didn't change any labor law when he laid off 11,000 striking air traffic controllers, but changing labor law was a big part of his legacy. In 1982, the National Labor Relations Board (NLRB)—still controlled by Carter appointees—held that Milwaukee Spring's bid to move production from a union to a non-union factory was illegal, not specifically because of the union contract, but because of settled law governing contracts. The company appealed to federal court, which sent the case back to the NLRB in 1984. By then, Reagan appointees had taken over, and they found new grounds to rule in favor of management that the previous board hadn't noticed.

In 1981, the Supreme Court had ruled that a company could move production away from a union factory only if some economic necessity *beside* labor costs demanded it.[4] But the Reagan NLRB subsequently reinterpreted the Court's decision to include labor costs after all,[5] and thereby gave its imprimatur to mass layoffs as a management tool to control unionization.

Thirty years later, we're all inured to the news of layoffs at this company or that, and most are familiar with the stories of people reflected in the von Wachter paper, but let's remember that it wasn't so long ago that mass layoffs were considered major news, and that much of this devastation is the result of consciously chosen government policies.

Policy responses Most of the government policy responses to the wave of layoffs are notable because they didn't happen. Under both Carter and Reagan, as noted, there were attempts to change the tax code to remove the preference for debt over equity, but these died in Congress. Attempts to override some of those NLRB rulings suffered similar fates.

One proposal that never got a serious hearing is a legal minimum severance package (comparable to a minimum wage). This would effectively raise the price of a layoff, and perhaps remove some of the incentive for managers to choose a layoff simply for short-term gain. This is the law in France, which will doubtless prevent it from ever being seriously considered here.

The actual policy responses to the wave of layoffs are notable because they were mostly useless. Congress pumped funds into job-training and education. In 1982 came the Job Training Partnership Act (JTPA, often pronounced "gypta," see box) which was supposed to be part of the privatized, reinvented government. It was supposed to be cheaper, too, with a first year's appropriation of $2.8 billion, about three-quarters the amount appropriated the previous year for the CETA, its predecessor.

And most of the policy responses were either ineffective or missing.

The result of JTPA was a large body of "consultants" offering ad hoc job-training seminars, and a confusing welter of regulations and conditions supporting them. When a layoff was announced, federal money would appear at some local agency to fund all kinds of different options. On paper it may have seemed sensible, but most of the

[3]To their credit, the Reagan administration made a gesture towards fixing this disparity in 1984 but—as had happened when Jimmy Carter proposed a more far-reaching reform in 1977—the effort was quickly and vehemently beaten back by CEOs many of whom lost their jobs in the subsequent corporate carnage. Apparently they found more prestige as corporate buccaneers than as managers of solid but dull business enterprises.

[4]First National Maintenance Corp. v. NLRB.

[5]This was the Otis Elevator case of 1984, whose conclusions were actually a bit unclear. A clear rebuke of the Supreme Court by a body as low as the NLRB wouldn't have been effective. But the lack of clarity sufficed and the plant relocations continued. The 1991 Dubuque Packing case formally seems to have swung the law back in the union's direction, but left loopholes large enough to move a factory through, which is what happened.

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training was for people to acquire skills, not general education. This kind of thing can make an employee more valuable to a particular employer, but if that employer has just left, or doesn't exist, then it's not much use.

What's more, the job-training options were largely not driven by the hopes, dreams, and aspirations of the newly-unemployed workers, but by the private industry councils who managed them. Realistically, a hundred laid-off employees of some factory are going to make a hundred different choices about what is the most sensible thing to do next with their lives. But the JTPA money would fund five or six options, if that. The money would have been far better spent strengthening or better subsidizing the nation's community colleges or state university systems—stable institutions with the range to provide many more than a hundred different choices to its students.[6]

Addressing only the supply side of the labor market ignores half the problem.

The Lessons The obvious lesson of the von Wachter study is that it's nearly impossible to ameliorate the effects of a mass layoff on the economy. To the extent that we can prevent them legally (and realistically), we should. But there are some cautionary notes to be found in its shadow.

For example, the study demonstrates that the value of a worker to the economy is not intrinsic, but is a function of the market. The von Wachter study considered workers who had been on the job for at least six years. They were moderately senior, and likely skilled. According to popular theories of what amounts to human capital economics, these were valuable employees. However, though they were as well-trained and skilled the day after their layoff as the day before, the price they could get for their labor dropped 30%. Lesson: local labor market conditions and trends mean as much or more than qualifications. This is, of course, blisteringly obvious, but it's astonishing how often policy is made without considering it.

To take an obvious example, consider JTPA itself. It was perfectly clear to most observers and participants at the time that the program was not very effective. But what other response to layoffs was considered? What plan was there for addressing the labor market itself? In a market with a supply of workers and a demand for work, all the attention was on the workers and their skills and education, and none on the market. Some changes in rules for unemployment compensation merited consideration, but after that, nothing, nada, zero. Worse, the coming of a Democratic president in 1992 only meant labor market conditions deteriorated with Bill Clinton's whole-razorback embrace of the free trade agenda, even if his appointees were friendlier.

Policy to focus on education and skills—the quality of the labor supply—simply isn't enough, even if it is useful. It is true that any individual worker can likely get a

The Power of Organization

The layoffs of the early 1980's were part of the stimulus for revamping the federal job-training apparatus. Senators Ted Kennedy and Dan Quayle sponsored the 1982 Job Training Partnership Act (JTPA) to replace earlier programs. Part of the "Reagan revolution" to bring the private sector in everywhere, the idea behind JTPA was to move away from reliance on public employment and emphasize skills training. Federal money was dispersed via Private Industry Councils (PICs), 51% of whose members were to be local business "leaders."

In practice, it's hard to see JTPA as a success overall. Lots of people received training, but it was expensive, and it's not at all clear how much it really helped. The ad hoc nature of the funding and the guidance by locals made it prone to corruption and near-corruption. It provided subsidies to companies moving production from one community to another, as well as to competitors to existing domestic industries. Millions were spent to help Toyota and Isuzu build and staff new, non-union, factories, for example. Most notoriously, JTPA also paid half the wages of employees who were being "trained" on the job, providing several months of subsidy to businesses who were hiring anyway in many cases. McDonald's and Wendy's were the recipients of these subsidies, among others. The money would have been far better spent shoring up the nation's community colleges and state universities—sources of more effective job training than any ad hoc computer skills class could ever be.

Where JTPA was a success, though, was in organizing business leaders to become a political force. The Northern Rhode Island PIC, for one, became a potent force in state politics in the 1980s and early 1990s, mostly lobbying for state and local tax cuts. (They went spectacularly bankrupt in 1998.) Among other efforts, PIC members were instrumental in drawing the map of Rhode Island's enterprise zones beyond Woonsocket city lines, to include a suburban industrial park developed by the Blackstone Valley Development Foundation (BVDF), an associated group. This made park tenants eligible for a panoply of tax cuts and incentives originally meant for businesses in troubled urban areas. Governor Lincoln Almond had been active in both the PIC and the BVDF before his election, as had Marcel Valois, who wound up as the new Governor's director of the state Economic Development Corporation. –TS

[6] JTPA is still extant, but over the years, its funding has moved in this direction, and become somewhat more flexible, too. Federal money still follows layoffs, and still focuses on skill-acquisition at the expense of general education (as do most other American anti-poverty education subsidies these days), but more of it is funneled into existing educational institutions than was the case early on.

better wage by getting more education. But it does not follow that giving everyone a college education is the key to prosperity, nor does it follow that new skills are the best way to help people after a layoff. The labor market itself must be addressed, and not just on the supply side. It's worth being skeptical of claims about the economic value of an education or of training.[7] These things are only valuable in the context of the specific conditions of a labor market. Calls to provide training to welfare recipients are pointless without addressing the labor market somehow, whether it be via minimum wage rules, tax rules to discourage layoffs, living wage requirements, or other measures. In short, the market matters, and we ignore to our detriment. A glass of water is valuable to a hiker in a desert, and not so much to a kayaker in a reservoir. If we don't want our workers to drown, we need to address both sides of the labor market. ■

[7]Education is valuable in and for itself. A liberal education is a way of carrying on what is best about our civilization, and nothing more need be said, really. But the Thomas Gradgrinds of the world demand otherwise, so read on.

> *Ponzi Nation*
>
> My book, *Ten Things You Don't Know About Rhode Island*, is getting out there, sales are doing well, and I'll be appearing at several local bookstores this fall (watch *whatcheer.net* for details). One important argument the book makes is that a lot of our fiscal woes are due to out-of-control suburbanization, and one question I've heard repeatedly is why this makes us unique.
>
> The answer: it doesn't. For example, a great deal of California' devastating fiscal woes can be traced to the fact that their economy has for years relied on Californians selling land to each other and to new arrivals. Now the number of new arrivals is dropping, and the finance machine that greased those gears has run dry, and so there's big trouble. California has trouble we don't have, though: like unfunded budget bills passed via initiative.
>
> On the other hand, what is different in Rhode Island is that there are *no* levels of government intermediate between the towns and the state: no counties, and not even any regional planning districts, except a newly established agency covering South County with two staff members. This makes us almost unique in the country. Even Massachusetts has the Metropolitan District Commission to share planning and resources among the different cities that make up the Boston metro area, and Connecticut has an active network of regional authorities. Because you only have to move a mile or two to be in the next town, town finances and plans are sensitive to the movements of people in a way that simply isn't true in places that can raise tax revenue from a larger area. This, along with our disproportionately urban nature, makes us a bit of an outlier among state fiscal crises, even while California is more dramatically sinking into a Pacific sunset. –TS

BOOK REVIEW

Conspiracies All Around

Awful Disclosures
Maria Monk, Howe and Bates, New York, 1836

LISTEN, PLEASE, to the terrible account of Maria Monk and her experiences as a young nun in the Hotel Dieu nunnery of Montreal in 1834. Days after her initiation to the nunnery, she learned about the secret passage to the seminary next door, through which priests would skulk at night to have their evil ways with the nuns. Babies born of these unions were strangled and thrown into a lime pit under the building, but only after baptism. Nuns were imprisoned in the convent cellar for years at a time, and Monk tells of one novice who objected to the murder of babies, who was herself murdered by a committee that included the narrator, at least three other nuns, the Mother Superior, the Bishop of Montreal and five priests. About licentious matters, Monk is admirably discreet, but in matters of humiliation, pain and death, the text is nearly pornographic in its description of ball gags, spiny leather belts, branding irons and scourging.

The story is, of course, a complete fabrication. Within a few months of publication, it was clear to any who were curious about it that Maria Monk had likely never been inside the Hotel Dieu, and instead seems to have spent several years in a different Montreal Catholic institution, the Magdalene asylum. But she had become pregnant there, and at age 18, having been expelled from the asylum, she met William Hoyte, an ardent anti-catholic activist, who seems to have introduced her to some writer friends of his in New York, and the rest is, well, history.

And what a history. It was an instant best-seller, and sold over *300,000 copies* in the years before the Civil War, from several different publishers. Indeed, it was the most widely-read contemporary book in America before the publication of *Uncle Tom's Cabin*.

But really, the book is absurd, so far over the top that it's astonishing anyone believed it. A priest murders a young girl *during* confession on the third page, another one is kidnapped into the convent on page 6, and another one is punished with a gag on page 7.[8] In Hollywood terms, it's not a documentary, it's a low-budget slasher epic, with a breathtaking body count.

That there were questions aplenty at the time is shown by the surviving editions themselves, many of which were accompanied by phenomenally extensive footnotes and appendices to buttress the claims of the text. The one I found was 86 pages of text and 60 pages of introduction,

[8]These refer to the pages in the PDF version from *manybooks.net*.

appendices and notes, all of which are about documentation of the claims. But the notes themselves, though voluminous, are mostly circular retellings of the original story, with little added beyond reassertion of the original points or a claim that this person or that agreed.

In the face of these questions, and with such shaky evidence, why did it sell so many books? Anti-catholicism was virtually part of America's religious DNA from the Puritans forward, and at the time of the book's publication, these sentiments were being stoked by an influx of Irish immigrants. There was a ready audience for accounts that would confirm nativists' low opinion of the newcomers.

It's more than that, though. Since the beginning of our republic there has been a substantial number of our citizens ready to believe that our nation is in imminent danger of overthrow by a massive conspiracy of (a) Masons, (b) Catholics (especially Jesuits), (c) Jewish bankers, (d) Communists, and now (e) community organizers.

The historian Richard Hofstadter identified this strain of thinking in a landmark 1965 article, "The Paranoid Style in American Politics." There, he wrote that though these conspiracy stories all differ, the people adhering to them share some common modes of thought. He didn't live to see (e), but his analysis fits a lot of what's been appearing about Barack Obama in this long hot August: that he's a secret socialist whose goal is to undermine American society, that he was actually born in Kenya, plans to weed out unproductive members of society through health insurance reform and so on and on.[9]

According to Hofstadter, the style finds grand conspiracies behind all manner of events, and explains the facts of life in terms of hidden forces grinding away behind the scenes. Catholics were blamed for bank runs and economic dislocation in the nineteenth century. Samuel Morse (of Morse code fame) claimed in an 1835 book that Austria was already active in the US, and that undercover Jesuit missionaries would soon have a Hapsburg installed as Emperor over the United States.

In the 20th century, the international Communist conspiracy was blamed for "losing" China. Robert Welch, the creator of both the Sugar Daddy and the John Birch Society, claimed that President Eisenhower was "a dedicated, conscious agent of the Communist conspiracy," as were Arthur Burns, Eisenhower's chief economist and later chair of the Federal Reserve, and John Foster Dulles.

Apocalyptic terms are another feature of this style, and a Manichean world view. Hofstadter says:

> "He does not see social conflict as something to be mediated and compromised, in the manner of the working politician. Since what is at stake is always a conflict between absolute good and absolute evil, what is necessary is not compromise but the will to fight things out to a finish."

Does this sound familiar? The conspiracy theorizing recalls the way Tea Party activists are currently blaming the bank bailout and stimulus package on socialists hidden in the administration, and the impending apocalypse is why you get people at events weeping about "losing their country."[10] It's also a factor in the wild claims made against ACORN on the national scene, or about union control of Rhode Island's legislature.

For each of these claims—communists in the State Department, Jesuits in Missouri, or unions in the legislature—you can find abundant documentation, of a sort. Indeed, Hofstadter wrote that an identifying characteristic of the paranoid style is a coherent world view—"more coherent than the real world," is how he put it—backed up by a devotion to the "apparatus of scholarship, even pedantry." Consider the pages and pages of notes and appendices to *Awful Disclosures*, for example. Despite the fact they were essentially devoid of content, they *appear* to be an unshakable foundation for the story.

There is a catch The Hofstadter article is full of the fascinating detail that makes a cogent work of historical

[9]One distinction worth making is that Hofstadter's choice of words may have been poor. He never claimed that people who cleaved to these views were clinically insane. He dubbed the phenomenon the "paranoid style" because it was useful to have a convenient name for it and because he thought the word "adequately evokes the sense of heated exaggeration, suspiciousness, and conspiratorial fantasy" he had in mind.

[10]Similar quotes have been reported at many congressional "town halls" this summer, but I heard these exact words from a woman at Representative Langevin's hearing at Warwick City Hall, 19 August 2009.

argument, but where Hofstadter fails—and where many struggling against this world view also slip—is in failing to distinguish between the leaders and the followers of these movements.

The idea that Barack Obama might not have a valid Hawaii birth certificate had an author somewhere. If the original thinker of that thought is lost to us, we at least find it relatively easy to identify the people pushing the idea hardest. Orly Taitz, the California attorney/dentist is one, Cable TV host Lou Dobbs is another, despite his occasional protests to the contrary. These people are granted authority by a complicit media, and they use that position to propagate lies and mistruths. They deserve calumny and worse.[11]

We all crave a master narrative to explain all, for better—and worse.

But what of everyone else? The truth is that life is challenging for many of us, our personal and professional travails usually occupy most of our attention. Some people are lucky enough to make public affairs their career, and they have the luxury of spending time keeping up with all the details. The rest of us have to make do with the time we can spare.

What this means is that people seek shorthand ways to understand the world. One important tool is the narrative, the master story that explains what's *really* going on. Despite the aphorism, facts do not speak for themselves. In truth, facts are as mute as a brick, and like a brick, they can be assembled into many different structures.

For example, an important narrative about government in Rhode Island is about how the state is dominated by greedy unions and lobbyists for poor people. If this is the narrative you cleave to, there is a wealth of evidence available that appears to support it. Here's a fact: Providence has essentially the same number of firefighters today as it had in 1950, when the population was 50% larger. Does that support the narrative or not? Is it a sign of greedy firefighters holding the city hostage, or is it just because even with fewer people, Providence still occupies the same area and has the same number of buildings that need protection?

Another: a report out from the United Way and the RI Public Expenditure Council says that 46% of state spending is on the social "safety net." Is it evidence that advocates for the poor run the state, or that the federal government has made policy decisions that steer social spending through the state's budget, while other federal programs (courts, prisons, air traffic control, coast guard, the navy, etc.) are administered directly?

So how, then, to push back against these views? Facts alone are not enough. Nor, to be blunt, is ridicule, though it's popular in certain circles. A media willing to call a falsehood false would help, but the cast of mind that demands a narrative won't stop demanding one in an instant. A narrative demands replacing, and for that there need to be alternatives with which to supply the demand.

What explains Rhode Island's condition? The conventional narrative of unions and poor people is a weak explanation, but it is an explanation. However, you can explain the same facts with a story of depressive economic policy, out-of-control suburbanization and the embrace of other popular but very expensive policies, like mandatory minimum sentences. In other words, other narratives are available but how often do you hear them? Until alternatives become widely discussed, it will be no mystery why the Tea Parties thrive. ■

[11] And a special malediction to those interviewers who fail to state that Obama's birth certificate has, in fact, already been provided and vouched for—in the form in which Hawaii provides them for every citizen. The "birthers" are simply capitalizing on Hawaii's switch to electronic records to cloud the issue.

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