Rhode Island Policy Reporter

Issue 17 **29 March 2006**

Statistically speaking

> It ain't so much the things we don't know that get us in trouble. It's the things we know that ain't so. –Artemus Ward (1834-1867)[1]

WHAT DOES A STATISTIC *mean*? Any statistic is just a measurement of some quantity. But a measurement rarely tells you anything definitive without the context. Knowing that the average height of the students in some school is 66 inches means something very different if we know that it's a college or an elementary school. If it's a college, it means that the boys are tall, unless it's an all-male school, in which case they're a bit below average.

In other words, a number by itself means nothing at all. The meaning only comes when it is presented along with the argument why it means what the presenter says it does. But everyone knows this. Children know this. "Look, I'm five foot ten inches," I say. "You're wearing shoes with heels, Daddy," comes the reply. But however obvious, somehow this critical facility is lost in many when they are presented with scientific sounding data. Here are three recent examples:

- Only 1.86% of Rhode Island residents earn more than $200,000 per year, while the corresponding number in Massachusetts is 3.06%.
- Rhode Island teachers are paid a higher proportion of the state median wage than in any other state in the country.
- The state spent $663 million in state tax dollars on social services in 1996, and $1.233 billion in 2006.

[1] This is variously attributed to Ward, Josh Billings, Mark Twain and Ralph Waldo Emerson.

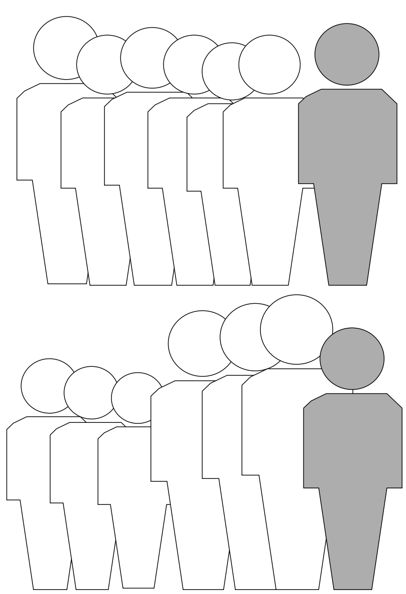

Figure 1: The shaded figure is slightly taller than the average in both crowds. But this means something different in the top crowd than it does in the bottom. See page 2.

In each case, the measurement is typically interpreted in only one way. But let's look at each of these in turn.

Where are the rich? Critics of Rhode Island's tax policy have made much in the past few months out of a comparison between the number of taxpayers who earn more than $200,000 per year in Massachusetts and Rhode Island. In tax year 2003, 3.06% of Massachusetts residents reported gross income over $200,000, while only 1.86% of Rhode Islanders are similarly blessed. The critics claim that this is evidence that state tax policy discourages rich people from living here.

This is just a measurement, but what is the context? Well, we could ask what the comparison used to be. In 2001, the comparable numbers were 3.18% and 1.67%. In other words, if this measurement means what the critics claim, Rhode Island has improved since 2001, while Massachusetts hasn't. Clearly, whatever we're doing is working, so why stop?

But to be honest about it, a movement this small over such a short time is likely just an insignificant wobble. So, using IRS data, I went back to 1961, and looked at the percentage of earners reporting incomes above $25,000. And it turns out that in 1961, Rhode Island and Massachusetts had roughly equivalent proportions of people that rich, 1.28% and 1.27% respectively.

So is it true? Are we chasing rich people away? Well, consider the evidence from 1972. The IRS had stopped publishing the fine grain data available a few years before, but the coarse data available implies that the modern pattern had been established, and that Massachusetts already had proportionally more wealthy people than Rhode Island. This was only a year after the establishment of Rhode Island's income tax, and though it was quite controversial at the time, it strains credulity to blame the movement on that tax change: it's a lot of people to move in a single year.

Are we chasing rich people away? The evidence is more interesting than the claim.

So what else had happened in the 1960's? Well, the establishment of the interstate highway system, the urban riots and school integration had all done their share to trigger the epochal flight to the suburbs that historians will note was the greatest demographic change of the 20th century. That's what. Before that point, rich people lived *in* the cities; the country was for rubes. Providence was rich, East Greenwich poor. After that point, they didn't. And like all states (except Kansas) Rhode Island contains all the cities in it. But our little state doesn't contain all its suburbs. Seekonk and Rehoboth gained from Providence's loss, along with Barrington and Warwick.

The flight from the cities was triggered by race, by crime (and fear of crime), but also by taxes. People noticed that they got more for their money beyond the borders of the cities, and as they left, the shrinking tax base made it harder for those left behind to pay for services. In other words, yes, the statistic does indicate that state tax policy drove rich people away, but it's the property tax that did it, long before the income tax was an issue.[2]

Is the income tax an issue now? Certainly some would claim it is. But by far the most affluent zip codes in the Providence metropolitan area are 02806, 02818 and 02906 (Barrington, East Greenwich, and the East Side of Providence), safely within Rhode Island's borders (IRS data). The concentration of rich people in Seekonk is about the same as in North Kingstown. In other words, this statistic by itself might seem to suggest that we're chasing rich people away, but the rest of the evidence tends to suggest that this statistic is essentially a product of the suburbanization of America and the unfortunate outcome of the borders set by our seventeenth century charter from King Charles II.

Rhode Island contains all its cities, but doesn't contain all its suburbs, where the rich live.

Blaming shortsighted state tax policy for the situation is, in a way, correct. But the diagnosis most often made has things exactly backwards. Rather than cut the income tax more, we should use it as it was intended, to relieve the tax pressure on our urban core cities.

Those greedy teachers Another oft-heard statistic is that Rhode Island's teachers are more highly-paid than any others, relative to the state's median wage. One can't discount the statistic, but one can look a bit more closely at it. The median wage is the wage earned by the people in the middle of the wage scale. **RIPR** issue 11 presented data showing that professional jobs in Rhode Island pay wages a bit lower, but roughly comparable to similar jobs in Massachusetts and Connecticut, while blue-collar professions tend to pay a lot less here than in either of our neighboring states. Our architects, accountants and veterinarians are, like those in Massachusetts and Connecticut, among the highest-paid in the country. But our cashiers, locksmiths, painters and hairdressers are paid far less.

What this means is that the median wage in our state means something very different than the median wage in the neighboring states simply because the distribution of jobs and wages looks different in the three states. This is similar to the example of the school given above. The average height of the students in an all-male college means something different than the average height of the students in a co-ed school. In the all-male school, one will likely find many students who are themselves near the average height. In the other school, with the average made up of a group of taller men and another group of shorter women, it's just as likely that almost no one will be right at the average. (See the figure on page 1.)

This is important when trying to decide how easily a tall student will fit in. Consider two colleges whose average height is 5'6" and a new student who is 6'0". In the all-male school, the new guy would seem quite tall, much taller than the average, while in the co-ed school, he would be likely to fit right in, probably around the same size as the average male. Roughly the same situation occurs when comparing teachers to the median wage in different states. In some states, teachers fit right into the overall wage distribution, while in others (like ours) they only fit comfortably into a portion of it.

The median wage in Rhode Island means something different than the median wage in Massachusetts.

We live in a small state, as is endlessly pointed out. Professionals like teachers are players in a market large enough to include substantial parts of our neighboring states. A teacher who lives in Lincoln is as likely to look for a job in Sharon or Danielson as in Cumberland or Warwick. Teaching jobs are good ones, worth commuting or moving for. Cumberland and Providence need to pay salaries comparable to nearby towns in order to attract good applicants to their jobs. This is nothing more than a fact of the job market, illustrated no better than by the legion of private employers who have made essentially the same decisions about hiring architects and accountants.

Among our neighboring states, the large disparity be-

[2] In fact, the establishment of the income tax was in part a response to this very trend, as it became increasingly clear that the cities were losing their ability to finance services. Governor John Chafee campaigned for the income tax in the belief that it was a fairer tax than the property tax. Of course he lost that election, but since has been proven correct many times over.

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tween professional and blue-collar wages observed in Rhode Island is something of an anomaly. There are several other states with a similar situation, but apart from California, they're all in the south. Rhode Island has the unfortunate distinction of being unique in the high-cost-of-living northeast. Though Rhode Island is not a bad place to be a professional, the combination of high costs and low wages make it a worse place to be a blue-collar worker than almost any other state in the country.

Why this is so is hard to say. It could be a legacy of the low-wage strategy on which our manufacturing industries were founded. Factory jobs in the unionized Midwest paid more, so presumably cashier jobs had to pay more in order to attract any workers. Or it could be a statistical artifact of the fact that Rhode Island is a more urban state than any other. Whatever the cause, it's our problem to deal with the fact. To say that our real problem is that teachers are paid too much is to completely miss the diagnosis, focusing on the symptom rather than the disease.

What can we do?

Raising the level of blue-collar wages in Rhode Island will not be simple. Our economy has grown around the idea that wages will be low, and there are decades of precedent to overcome. But here are some suggestions (some of which have bills attached to them in the current session of the General Assembly):

Index the minimum wage The minimum wage should be indexed to the rate of inflation to preserve the purchasing power of an hour of work. (S2113, Raptakis)

Living wage requirements The state should demand that its subcontractors pay their employees a living wage—more than a minimum wage—in order to receive state contracts.

Health care/Fair share Until the state figures out a way to get employment and health care de-linked, the state should require that large companies who can afford it either provide health care to their employees, or pay for the state's cost to provide it. (H6917, Rice, Handy, et al. and S2201, Pichardo, Perry, et al.)

Those lazy welfare recipients

So what are we to make of Rhode Island's exploding social service costs? The obvious story is that our rules are too permissive: people stay on welfare longer here than most other places, the benefits are too rich and so on. But this diagnosis overlooks some important facts.

For one thing, a recent report from the Department of Human Services[3] shows that the number of people receiving Family Independence Program (FIP, i.e. welfare) cash assistance has declined dramatically since 1997, from 18,815 families to 12,074. During that time, as families have enrolled and then left the program, over 30,000 have left welfare for work. The state's cost to support those families has declined from $51.5 million to $13.3 million. Even the average cost of supporting an individual family has declined from $457 per month to $418 per month. It is completely untrue to claim that cash benefit recipients are the cause of the spending increase, but people who discuss decreasing time limits on FIP to control costs are implicitly claiming exactly that.

There is a claim afoot that, as other states increase the stringency of their welfare requirements, poor people are streaming into our state to take advantage of our still-permissive welfare laws. The DHS report does point out that 9.5% of new FIP families have, indeed, come from other states. DHS is not rigorous about verifying this data (it's self-reported on application forms), but the same measurement in 1996 showed 17% coming in from other states. We don't sanction people from elsewhere, so apparently fewer people are coming into Rhode Island under the new laws than came in before welfare reform.

So where's the spending growth? It's in services provided instead of cash benefits. If you're poor in Rhode Island, you are eligible for assistance in health care, child care, food stamps and more.[4] The demand for these services has skyrocketed, but a fast growing part of the demand is for child care (doubled since 1996) which is only subsidized for FIP recipients—and people who work. This implies that much of the increase is just the outcome of poor pay for blue-collar work: lots of jobs simply can't feed a family.

There is a legitimate point to be made here that aid like food stamps or the Earned Income Tax Credit are subsidies to those companies whose wages are too low to live on. In effect, the state is making the already cheap cost of blue-collar labor even cheaper: welfare metamorphosed into a corporate subsidy. An economist would blame these subsidies for the low wages, while others might reverse the equation and blame the low wages for the demand for subsidies. This kind of chicken-and-egg debate is time-consuming and fairly pointless. Whichever side is correct about ultimate causation, the fact remains that hundreds of thousands of Rhode Island residents depend on these services, and sudden cutbacks will be ruinous to them, and have a tremendous ripple effect throughout

Are poor people pouring in to take advantage of welfare here?

[3] *www.dhs.ri.gov/dhs/reports/fip_2006.pdf*

[4] This is exactly the shift from cash aid to the poor that was the centerpiece of welfare reform. Helping people become independent is a good thing, but only people who weren't counting carefully thought child care and job training would save money over simple cash benefits.

our economy. And thousands of companies depend on the low wages they pay their employees. Some of these could afford to do otherwise (Wal-Mart comes to mind) but others cannot. Weaning either group from this support will be difficult and take time. But it will not happen so long as all the blame falls on the people who need food, shelter and medicine in order to live. ■

But won't they leave?

The public policy debate in Rhode Island this year seems to be organized around the principle that any change in our income tax code will cause a hemorrhage of rich people fleeing the state. Presumably havoc will then ensue. To put it mildly, this is bizarre.

There are slightly more than 9,000 people who live in Rhode Island and report more than $200,000 on their 2003 income taxes. Will they all leave? The president of Brown is among them. She won't leave, and if she does, Brown will hire someone else. Ditto the presidents of Blue Cross and Rhode Island Hospital. The Governor is probably also among the elect. Will he leave?

An interesting paper by economists Thomas Pinketty and Emmanual Saez[a] shows that the top of the income scale in English-speaking countries around the world is now occupied by wage-earners, instead of rentiers. That is, it's CEOs, not capitalists, who are now our ruling class. The important thing about that is that these are people who work *at* some company or other. In other words, the majority of the 9,000 richest Rhode Islanders are probably the owners or presidents of the Rhode Island enterprises that made them rich. What makes us think a tax hike will cause a catastrophic number of them to abandon our state and the businesses that made them rich?

It's as certain as anything can be that an income tax hike will cause some wealthy people to leave. No doubt at least one of them will catch the ear of an enterprising Providence Journal reporter, and we'll get to read about their travails in gory detail. Coverage of that case and the endless pious discussion in editorials and conferences will then be allowed to obscure the actual migration rate, which will probably be as modest as the tax changes proposed.

The real question isn't whether a tax change will cause some rich people to leave. Of course it will. But continually decaying schools and expensive housing will cause some rich people to leave, too. What's more, this second effect has already happened—and is still happening, as the original suburbs are displaced by further-out suburbs. As the rich once fled Providence for Warwick, now they don't stop before East Greenwich or Narragansett, As the article on page 1 reminds us, poor schools and high property taxes were among the important original reasons for rich flight to the suburbs. It's late to be addressing this, but better late than never.

[a]National Bureau of Economic Research, Working Paper 11955, January 2006, link online at *whatcheer.net*.

Health Care in the Economy

Greg Gerritt

Just about everyone in the United States is concerned about the cost of health care, and the fact that the price of health care is rising so much more rapidly than the price of other necessities of life and wages.

I began to delve more deeply into the causes of the rapid rise in health care costs when The Miriam Hospital decided to embark on a major expansion of its facilities, a $120 million dollar expansion of facilities, right in the middle of my residential neighborhood. The Summit Neighborhood Association tried everything it could do to stop or scale back the expansion, but it seemed as if the deck was stacked against us. All of the relevant city laws were written and enforced in such a way that the hospital could do almost exactly what it wanted, even when openly flouting the law. The state process for regulating health care capital expenditures, the Certificate of Need program, turned out to be a rubber stamp for the hospital, with the Health Care Finance Commission unwilling to consider whether the expansion was really needed or a good idea. All of the politicians elected by our neighborhood, despite repeated assurances that they were on our side, sold us out. In the United States, when a community is run over by an institution, the first thing one does to figure out what happened is follow the money.

According to a recent World Health Organization (WHO) study, the US has the most expensive health care system in the world by every possible measure.[5] America spends more total money, spends more per capita, and spends a much greater percentage of its Gross Domestic Product (GDP) on health care than anybody else. In 2003, total national spending on health care rose to $1.67 *trillion*, or $5,670 per person. In 2001, we spent 13.6% of our GDP on health care, by 2003 it was up to 15.3% of GDP.[6] According to a recent article in the Washington Post the US is now spending 16% of GDP on health care.[7] The nearest competition is Switzerland which spends about 11% of GDP. Per capita spending is also about double that in Great Britain, Canada, France, and Italy.

If the United States had the best health care system in the world, we might say that it was worth it, but the same WHO study ranked the US health care system 37th in the world, behind nearly every western industrialized

[5]The World Health Report 2000 – Health systems: Improving performance. World Health Organization, Geneva, Switzerland, 2001

[6]"Effects of Health Care Spending on the U.S. Economy." Website of the Assistant Secretary for Planning and Evaluation (ASPE) U.S. Department of Health and Human Services (HHS) Last updated: 02/25/05

[7]"Record Share of Economy Is Spent on Health Care" by Marc Kaufman and Rob Stein. The Washington Post, Tuesday, 10 January 2006.

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nation. Many countries spend much less than we do to deliver much better health care (including better outcomes). The United States is also the only western industrialized nation that has a significant uninsured population and the only country with real barriers to accessing health care services, despite the US government providing nearly 40% of all health care dollars spent.

Given that we spend so much, and get so little, one has to wonder why the health care industry is able to amass a greater and greater share of our GDP each year. There are credible predictions that it will be at 23 or 24% of GDP by 2011,[8] though most experts believe it will be in the 18 or 19% of GDP range.[9]

According to the HHS/ASPE statistics the yearly increase in health care spending over the last few years has been in the 7 to 10% range. During that same period the yearly rise in GDP was in the 3 to 4% range and inflation was in the area of 2% to 3% per year. If one does a back of the envelope calculation it becomes very clear that the growth of health care spending provides approximately 40% of the rise in GDP each year.

Henry J. Aaron, in one of a series of papers delivered at a Conference of the Council on Health Care Economics and Policy, stated that the repercussions of attempting to rein in the growth of health care spending would be catastrophic on our economy and communities.[10] A recent Providence Journal article on the nursing shortage pointed out how much of the RI economy and job growth is dependent upon health care spending.[11] During the 2002 campaign season the candidates for Mayor of Providence spent a lot of time discussing how best to use health care spending growth to create prosperity in Providence. Aaron states that he does not believe health care spending growth can be slowed down without damaging the health care system and the delivery of health care to ailing individuals. Aaron believes that health care spending increases are driven by the research going on in the bio-medical field and that this cutting edge research is of critical importance to the heath of our nation's economy.

How do we cut health care spending if it is one of the big components of economic growth?

At the same conference, Stuart H. Altman et al. noted the lopsidedness in the economy, with health care being one of the very few drivers of economic growth, as well as one of the big drivers of the rising cost of living for working people. He pointed out that this could have very damaging effects on our communities, and that a holistic plan to rein in the rise of health care spending could be worked out.[12] Some of how we might rein in health care spending involves helping people live healthier lives: reducing man-made environmental hazards such as toxic chemicals or helping people eat healthier diets. Some of the reductions in spending could come from better health care planning—using the RI Certificate of Need program as it was intended, for example.

Altman's approach is backed up by a recent series in the New York Times about the diabetes epidemic. The articles noted that preventive strategies create much better health outcomes for diabetics. Unfortunately, the current health care spending funds very little preventive care, but it will provide big bucks for the amputations that follow from a lack of daily maintenance and prevention.[13]

Policy makers in RI and around the country face an interesting dilemma to wrestle with. Daily we are inundated with stories about rising medical costs hurting the poor and the elderly, leading to hunger, bankruptcy, and all manner of social ills. Meanwhile, the medical industry is one of the chief engines of the economy and job creation.

Governments struggle with budget gaps largely propelled by rising medical costs. They will continue to struggle—and wonder why—until they honestly tackle the issue of the role of health care in the economy including the role the community wants it to play in driving the economy, how to create healthy communities, and how we to fund universal health care and prevention. ■

Book Review

Making trouble

Crashing the Gate
Jerome Armstrong and Markos Moulitsas Zúniga,
Chelsea Green, 2006

This newsletter is resolutely about policy rather than politics—what our government *does* rather than what governors and candidates say—but every now and again our staffer raises his head to wonder why the populace brooks so little discussion about important policy matters. After all, however dull discussions of tax policy are, the resulting taxes are pretty important.

It sometimes seems that the media and the two parties conspire to discuss only policy ideas from one side

[8] "Tracking Health Care Costs: Spending Growth Slowdown Stalls in First Half of 2004" Issue Brief No. 91 December 2004 Bradley C. Strunk, Paul B. Ginsburg EBRI Notes, Vol. 25, No. 12, Washington, D.C. (December 2004).

[9] HHS/ASPE, op. cit.

[10] "Should Public Policy Seek To Control The Growth Of Health Care Spending?" Henry J. Aaron, (Princeton, NJ, June 2002).

[11] "Rhode Island needs her, but can they train her?" Lynn Arditi Providence Journal January 22, 2006

[12] "Escalating Health Care Spending: Is It Desirable Or Inevitable?" Stuart H. Altman, Christopher P. Tompkins, Efrat Eilat, and Mitchell P.V. Glavin

[13] "In the Treatment of Diabetes, Success Often Does Not Pay," Ian Urbina The New York Times January 11 2006

of the political spectrum. We hear about this tax cut or that one, about the pros and cons of banning stem cell research or about the wisdom of scrapping Social Security. But we don't hear about national health care, reinvesting in schools, or alternative sources of energy. Obviously, this is in part because the Republican party holds the White House, the Congress and the Supreme Court, and these are not their policies. But, except for a brief flirtation with health care in 1993 and 1994, these topics have been under-discussed since the 1970's.

The omission is particularly curious since poll after poll points out that most of the policies associated with the Democratic party are more popular by far than the corresponding Republican policies. Republicans acknowledge this by their portrayal of controversial policies: they aim to "fix" Social Security, or to outlaw only "partial-birth" abortion, establish a simple "flat" tax, and so on. When the consequences of these policies are accurately described, polls show little support. But when masked by these assumed names, the implicit framing of the debate produces more support from the public.

So why don't we hear more about Democratic policies? Berkeley linguistics professor George Lakoff has identified some rhetorical reasons, and been justly lauded for it.[14] And it's true that Democratic candidates for office are often appallingly prepared—with rhetoric or data—and fall back on their own opponents' framing of the issues. But can this be the only reason?

Now come Jerome Armstrong and Markos Moulitsas Zúniga, two of the most successful left political bloggers, with their diagnosis of what ails the Democratic Party. From the perspective of this wonk, they've nailed it.

The conduct of Democratic politics is thoroughly professionalized, and is completely dominated by the consultants: media guys, campaign managers and pollsters. When a candidate starts to raise money nationally, they inevitably find that smart money won't come their way without the "credibility" implied by the commitment of some members of this cadre. These "experts" then parachute into Rhode Island, or wherever, and dispense their expensive advice. Unfortunately, their advice is often to tone things down, lose the hot rhetoric, play it safe, talk about "character" instead of issues. My own observations of such consultants is that they are largely uninterested in the details of whether some policy is a good idea or not. Sure there is agreement about broad goals, but if your goal is to reduce reliance on foreign oil, there are lots of ways to do it. Some sound good, but are stupid. They sound clever, but get you trouble with the press on the campaign trail when you have to defend them.

The consultants are interested in success, and so they're heavily influenced by what worked elsewhere. They don't want to innovate; they want to do the minimum for their fee. The policies they get behind are the least common denominator, and new ideas get short shrift.

Even more unfortunately, these people stand to gain personally whether their candidates win or lose. Bob Shrum comes in for some well-deserved ridicule from Armstrong and Moulitsas as a man who's been involved in eight losing presidential campaigns, but whose advice still commands top dollar. One wonders who deserves the ridicule more, him or the people who continue to pay him. The truth is that we have a system where quality and competence do not necessarily rise to the top.

The book is about much more than this, including the rise of the blogs as political tools, the corrosive effects of single-issue pressure groups, the efficiency of the right-wing noise machine, and some fascinating footnotes to the 2004 presidential election campaigns. It's all compelling, but the most memorable part remains the searing indictment of the hesitant, fearful, "professional" and unimaginative management of the Democratic party. Buy it and read it. ■

[14] *Don't Think of an Elephant*, Chelsea Green 2004.

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