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John Kostrzewa: Report emphasizes infrastructure, education as best ways to create jobs

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Repairing roads and bridges and improving education might sound boring compared with developing whiz-bang video games or offshore wind turbines.

But a new report that studied Rhode Island and New England's economy found that the old-fashioned ideas are the best way for the region to recover from the recession and create jobs.

Further, the study says that single-company deals and tax breaks granted to a narrow group of businesses deplete scarce resources and are not the way to build a new economy.

"The tax cuts and business subsidies approach to economic development ... will do little to create jobs in the short run and is not the most effective approach to generating growth over the long term," according to the study by Jeffrey Thompson, an assistant research professor at the Political Economy Research Institute at the University of Massachusetts-Amherst. His work is partially financially supported by The Poverty Institute, the low-income advocacy group.

Thompson's conclusions should catch the attention of Rhode Islanders who are paying for a series of special-interest deals.

Earlier this summer, [Governor Carcieri](#), as chairman of the Rhode Island Economic Development Corporation, pushed forward a plan to lure Curt Schilling's video game company, 38 Studios LLC, here from Massachusetts with a \$75-million state loan guarantee. Carcieri's administration also granted exclusive rights to Deepwater Wind to build a small wind farm off Block Island. Then, he and [General Assembly](#) leaders approved a new law that directed regulators to approve an expensive power purchase agreement between Deepwater and National Grid.

Carcieri defends the video game and wind turbine deals as solid bets that will eventually create a cluster of new technology companies that will form the basis of a new economy. But critics, including several political candidates who want to succeed Carcieri, say the plans are risky because they are based on unproven technologies and untested companies that have yet to show they can earn money. Even if the deals work out, they say the potential economic benefits will not be substantial.

Rhode Island also has attempted to attract business and create jobs with its tax policy. State officials last week issued another annual report that detailed \$40 million in tax breaks last year to about 60 Rhode Island companies. But again, as in prior years, the tax officials said there is no public information or analysis about whether the tax breaks created the promised jobs.

Yet, despite the lack of evidence that the incentives, including tax breaks for companies in enterprise zones and that make movies, provide a good return for taxpayers' dollars, General Assembly leaders put them in the state budget. Legislators do this even as they cut services or local aid that requires hikes in property taxes or car excise taxes.

Thompson's report, called "Prioritizing Approaches to Economic Development in New England," offers alternatives to the "tax credits and business giveaways."

"Instead, the region needs to focus its economic development efforts on rebuilding neglected infrastructure and improving education for people at all levels, from preschool youngsters to older adult workers," he writes. "Spending and investing in areas at the core of the public sector mission — providing education and maintaining infrastructure — are effective at creating jobs in the short run and building prosperous economies over the long term."

On education, Thompson argues that investing in education attracts business, raises gross state product, increases employment in metropolitan areas and raises personal income. He claims that every million dollars spent by Rhode Islanders on education creates between 26 and 33 jobs for teachers, aids, custodians, nurses, professors, bus drivers and others.

I agree that education is a key to developing the talent, skills and entrepreneurs on which to build a knowledge-based economy and fill the needs of traditional companies. But I shudder at the idea of simply spending more money without controlling or targeting where it's going, and measuring improvement.

Already, Rhode Island ranks among the top 10 states nationwide for per capita spending on primary and secondary education. Yet national test scores show Rhode Island stuck in the middle of the pack, and lagging behind its neighboring states in New England. Also, Rhode Island's dropout rate of about 30 percent is one of the highest in the country.

I feel the same way about repairs to bridges, dams, roads and drinking water systems. Thompson provides data that shows more than half of Rhode Island's bridges and roads are deficient or poor, and the drinking water system needs millions of dollars worth of repairs.

I agree the roads and bridges are a mess. And road work provides jobs, especially for blue-collar workers who have suffered with the decline of the state's manufacturing and construction industries.

Hopes that [federal stimulus](#) dollars would show quick results have been disappointing. The money seems slow to arrive, the benefits hard to see.

It doesn't seem to be the most effective way to spend taxpayers' dollars.

Thompson, the researcher, specializes in labor economics and income inequality and his conclusions are embraced by community action groups and advocates of the poor, such as the Poverty Institute, which analyzes tax and budget policies and contributed about \$2,000 for his

work. Comparable organizations in each New England state and the Stoneman Family Foundations also contributed.

Critics of labor economists such as Thompson say they are left leaning and don't understand how businesses create jobs or how government can stimulate private investment.

Still, I give Thompson credit for adding information to the debate about the best use of taxpayers' money, based on fiscal analysis and not the interests of those who have the ear of key legislators or the governor.

As Rhode Islanders struggle to recover from the recession and prepare to elect a new group of leaders in November, it's a critical time for debate.

Thompson put some ideas on the table. It's up to Rhode Islanders to use them.

To read Thompson's report, go to:

http://www.peri.umass.edu/fileadmin/pdf/published_study/priorities_August9_PERI.pdf

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