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David G. Tuerck: R.I. needs lower taxes, tougher labor laws

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IS YOUR JOB SAFE?

It's a question that many Rhode Islanders have asked themselves after a government report announced that the state had lost 2,300 jobs in January, while the rest of the country had enjoyed 2.7-percent job growth. The job losses, concentrated in education and health services, as well as the leisure-and-hospitality sector, reflect Rhode Island's stifling labor and tax laws.

Some policymakers are taking note. Recently I testified before the state General Assembly's Joint Committee on Economic Development on behalf of the Beacon Hill Institute, which had just ranked Rhode Island 37th out of the 50 states in competitiveness. Our findings may point the way toward policies that would encourage economic expansion in Rhode Island.

We examined 42 indicators that, in the aggregate, measure the ability of a state to attract business and workers, and to maintain a high standard of living for its residents. Some of these indicators give Rhode Islanders a reason to be proud: The state is relatively safe and has low crime, ranking third in terms of personal security. It also has some of the strongest indicators with regard to higher education. And Rhode Island has the lowest ratio of state- and local-government workers to population among the 50 states.

But it also has serious problems.

One thing hampering Rhode Island's competitiveness is the monopoly rights and compulsory dues granted to its labor unions, which dominate the public sector and bedevil the private sector with high costs and burdensome work rules.

In contrast to Rhode Island, right-to-work states enjoy a significant advantage in attracting new business, which can manage their operations more efficiently and at lower cost. The union influence can be seen in Rhode Island's minimum wage, which is higher than the federal rate, and which destroys jobs and keeps potential employers from investing in the state. The 700 jobs lost in the heavily unionized education and health-care sectors reflect the detrimental effects of union power.

Equally bad is the tax situation. Among the 50 states, we rank Rhode Island 47th in its "tax competitiveness." The Washington, D.C.-based Tax Foundation recently released its State Business Tax Climate Index and ranked the state 48th. The foundation's president, Scott Hodge, reminds us that "states do not enact tax changes in a vacuum. . . . Every tax change will affect a state's competitive position relative to its neighbors, as well as globally."

The best tax systems raise sufficient revenue without driving away investors, income earners, and customers. Rhode Island seems to have written a tax code that tells the rest of the world that it's closed for business.

Ask yourself why Massachusetts, right next door, vastly outcompetes Rhode Island, and you'll get part of the answer by comparing sales and income taxes.

In view of its reluctance to cut spending, Rhode Island needs to find revenue sources that will let it provide some tax relief to its citizens. One idea would be to allow the construction of a new casino in Rhode Island. Not only would that raise hundreds of millions of dollars in additional revenues, which could be used to make some easing of taxes possible, but it would also replace many of the 600 jobs Rhode Island lost in its leisure-and-hospitality industry in January, and even create new ones.

One thing is clear: Rhode Island lawmakers can no longer hide from the burdensome labor laws and taxes that render the state so uncompetitive. It is time for them to deal with the elephant in the room and find creative new ways to give the state a more business-friendly environment.

David G. Tuerck is a professor and chairman of economics at Suffolk University, where he is executive director of its Beacon Hill Institute.

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