

The unequal benefits of teaching

In his latest Letter from America, Angus Deaton looks at the growing income inequality in the USA and reflects again on the fiscal difficulties faced by some US states that he highlighted in his last Letter.

I ncreasing income inequality worries many, although as far as our personal finances are concerned, American economists have little to complain about; we are among the winners not the losers. Over the last 25 years, remuneration in the financial sector has spilled over, not only into corporate boardrooms, but also into salaries in business schools, and academic economists' earnings have risen in their wake. Salaries for economists have risen and workloads fallen as university administrators have struggled to minimise intra-faculty income inequality by permitting (arguably) less visible inequalities in teaching. In the job market that is closing as I write, the top-of-the-market new PhD in economics can expect a starting salary offer close to \$150,000 for 9 months, plus guaranteed summer salary, in exchange for which he or she will be required to teach a total of *three* (36 hour) courses over the next *four* years, and for the most attractive prospects, whose offer is enriched by an initial year as a post-doc at an only somewhat lower salary, *three* courses over the next *five* years. Not all teachers are sharing in this bonanza, particularly not those who teach in America's public schools.

They, along with other state and local government workers, have found themselves in the front line of the political and budget battles that have followed Republican victories last November. Control of the House of Representatives switched to the Republicans as did 11 state governorships, and the balance across the states is now 29:21 compared with 21:29 prior to the election.

The public and private sectors

In my last letter, I wrote about looming pensions and benefits crises in state and local governments, and these crises have broken much sooner and rather differently than might have been predicted. State finances, hurt by the recession and the slow recovery, were only temporarily buoyed up by stimulus funds, and many states currently have no money to pay their bills. Several

Republican governors — in Wisconsin, Indiana, and Ohio — see public sector unions and their earnings as the prime culprits. Unionisation rates have fallen rapidly in the US, except in the public sector, so that now only 6.9 per cent of private employees are unionized, compared with 36.2 per cent of public employees and more than half of all unionized workers are now in the public sector. At the same time, the shifting of pension risk from employers to employees through the demise of defined-benefit schemes has hardly touched the public sector. Public sector workers have also been largely protected from the escalation of health costs and reductions of health benefits faced by many private sector workers. These differences have clearly spurred some resentment, stoked by some well-publicised cases of pension 'spiking', the artificial boosting of pension entitlements through overtime in the final year of employment. One widely touted case concerned 'disabled' ex-cops crowding golf courses while being paid pensions that are almost as large as the salary of an Assistant Professor of economics (who would have plenty of leisure to play alongside them.)

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Political economy has played a role in public sector benefits. If myopia is common among individuals who are apt to 'forget' to make adequate and early provision for the future, it is much more common among publicly elected

officials who face no penalties for 'solving' current problems (such as difficult union negotiations) at the expense of their successors and future taxpayers. Accurate estimates are hard to find in the barrage of political rhetoric, but it appears that current salaries, adjusted for age, experience, and education, are somewhat lower in the public sector; this is no surprise given that politicians must meet these current benefits out of current taxes. But the level of promised future benefits is relatively high, at least in some states. Even so, benefits are sometimes hard to evaluate; for example how do we value the reduced risk of defined-benefit pensions? And as rarely noted in the debate, about 30 per cent of public sector workers are not

covered by social security, the otherwise almost universal federal pension for Americans. Republicans tend to blame Democratic legislators for giving in to their union supporters, but political myopia (though political rationality might be a better term) is not a disease that affects only one party. And for some governors, their current financial pickle provides a good opportunity to settle old scores with the unions by restricting or removing rights to collective bargaining. These governors have at least some support from a public that is itself suffering financial hardship, is looking for scapegoats (sometimes unions, sometimes immigrants), and thinks that everyone should share their pain. Many have also bought into the successful Republican rhetoric that people are out of work because governments are overspending.

Deregulation and income distribution

The confrontations in the states are echoed by the politics of income re-distribution at the federal level. My colleague Larry Bartels has shown that income distribution has widened more rapidly in Republican than in Democratic administrations; this has happened not so much through changes in taxes and benefits, but through a widening of *pre-tax* income inequality. In their recent book, *Winner take all politics*, Jacob Hacker and Paul Pierson argue that the emergence of super-sized salaries for Wall Street and for corporate CEOs can be traced to a carefully planned and well executed expansion of corporate lobbying in Washington, especially lobbying for deregulation. (Another example is the successful lobbying against the introduction of an evaluative agency anything like Britain's NICE which might limit profit for pharmaceutical and medical device manufacturers.) Deregulatory fervour is not a monopoly of one party — much was done during the Clinton years — but such policies have certainly been pushed harder by Republicans, which is one reason for Bartels' findings. In the current Republican House, budget cutting proposals, like the governors' proposals in the states, are presented as necessary for budget-balancing, but the details, like the governors' proposals, are directed at old enemies, in this case the federal regulatory agencies. These include those that monitor occupational safety, environmental pollution, and the financial sector, and the draft budget includes particularly large reductions in funding for the Security and Exchange Commission, which is charged with implementing the financial reform legislation, and the Commodity Futures Trading Commission, which regulates derivatives including those that played such a large part in the financial crisis. There is no doubt that unions — including the teachers' unions — have much to answer for, and it is not hard to find examples of petty and overzealous regulation of business. Yet the simultaneous weakening of both unions and of regulatory agencies is a policy that is well-designed to pull the incomes of the rich yet further apart from those of ordinary people.

Back in the academy, economists have not been shy of entering the debate (on both sides) and some (mostly on one side) have earned large fees for doing so. The movie, *Inside Job*, which received this year's Oscar for best documentary, excoriates a number of senior economists for not disclosing fees when making recommendations on policy in their papers and in newspaper articles. In one scene, Glenn Hubbard, Dean of the Columbia Business School, argues that there should be full disclosure of conflicts of interest whenever anybody does research on a topic, but then makes the astounding claim 'I cannot imagine anybody not doing that. . . There would be significant professional sanction for failure to do that.' If only. Yet, as is the case in the country more broadly, attempts to impose any such sanctions, or even to draw up a code of conduct, will be powerfully resisted by those economists who firmly believe that their earnings are no one's business but their own.

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Gary Koop is a Professor of Economics at the University of Strathclyde and a world leader in Bayesian Econometrics.

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