

(The following is a lightly edited transcript of a presentation delivered at a conference at the Rockefeller Institute in Albany, New York on September 14, 2009.)

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I'll be as quick as possible. The fact that I don't have so much time is going to make it easier, because I had wanted to make a lot of comments, and now I will probably be able to excise them.

I have been kicking around New York government and politics for a very long time, and I came, over time, came to some conclusions that a lot of our discourse, our political discourse in New York, is wrong.

And that's kind of why I started this. I am hoping to change a little bit the political conversation in New York. My take on some of the other comments and generally my take on sort of New York ideology is probably a little oblique. It's not per se left or right. But what I contend is that regulation is a huge deal, and it's not measured in any effective way. And that America has fundamentally changed in the last 40 or 50 years. We have become a regulatory state in many respects. It explains a lot of our politics and explains a lot of our economics. I think New York got a bad dose of it, and it has an impact.

And the cost of living is a somewhat contentious issue. Can you really measure it? And some people say you can't very well. And I am open to that. So maybe I should start by sort of defending myself. The question is, "Am I right?" What I am going to argue is that New York has an extremely high cost of living and therefore in purchasing power parity terms we are in fact poor and perhaps astoundingly poor. And that probably explains the astounding outmigration from New York that has had as a state the worst population performance of any state in America since 1970 ... if you take into account the demographic churn, i.e. the huge increase in immigration from foreign lands ... when I did the numbers, we were dead last ... if you do that .... If you do not, we were 47<sup>th</sup> last. We had about 18 million people in New York in 1970. It's 19 and change today. If our population had grown at the same rate as the rest of the country, if the children of the baby boomers had stayed, we would have something like 25 million people in New York. But we don't. That means that roughly one out of four people left. I couldn't find any kind of similar outmigration looking around the world other than the outmigration that occurred between 1949 and 1961 from East Germany to West Germany, which was faster, until they built the Berlin Wall.

So my contention is that taxes, which is a lot of ... when I talk about political discourse ... people talk about taxes and taxes are too high in New York, but the disparity in the cost of living is dramatically higher. So to me the cost of living estimates are an indirect way of trying to capture in an aggregate form these overall costs of regulation. The NYCRR as I understand is something like 45,000 pages in New York. And these things add up in terms of cost.

Now the homepage ... this will be hard to follow if you didn't [take] my handout ... what I argue is that internationally this is gaining attention. We created a regulatory state. The World Bank now has a system ... they use a lot of volunteer work from prominent law firms ... to try to measure the cost of regulation in various global cities. ... and to rank that. The OECD has been talking about trying to measure the cost of regulation. They promote something that I put on my homepage called the International Standard Cost Manual, which was recently put together I think in Holland, and it's really a

fairly simple heuristic that walks people through ... and if they are going to introduce a new regulation ..., they say how many hours do you have to spend filling out the paperwork and other kinds of estimates and other measurements and you add it all up ... what is the scope of this industry that you regulate ... so they are trying to put price tags on these regulations.

So I say, "What gets measured gets done." A standard view in government. You can't solve a problem until you can measure it. Think CompStat. And I quote something about regulatory policy from the OECD. "Regulatory policy must focus on two dimensions of regulatory activity: the appraisal of new regulation to ensure the quality of the 'flow' of new regulations and the reform of existing old regulations, 'the stock.'"

We don't do this very well in New York. I was working in the past for the Department of State one time and I was interested in a cost benefit analysis for something that we were supposed to regulate. And I said let's find someone who does this on a regular basis. And so we called around to every state agency, and there was not a single, one, economist anywhere in New York, who did cost benefit analysis, not even at DEC.

Now in my presentation, I include an article I published in the City Journal. I used different sources. And a lot of people question them. Fair enough. One of the more recent ones comes out of the Bureau of Economic Analysis by an international expert on this, who, her desire and intent is to get Congress to give her money to perform a really good survey to measure these things. But in the meantime, she has manipulated CPI data as best she can to do it, and she says that the New York State cost of living in the most recent edition is ... 31.8 percent above the national average. California is very high. If you use her data and then you deflate ... I used median household income ... Mayor Bloomberg likes to say that it's like 5000 people that pay all the taxes ... which Jim Parrott was talking about and of course is correct ... I will get to that at the end ... so median household income is better for measurement ... and if you use her data for New York State ... and she has two versions of it. The first time out she did a straight deflation, she deflated the full value. The second time out she took out some of the elements, and I asked her why, and I couldn't understand the answer. I think part of it is she thought it was a good idea. And part of it is that it's politically charged if you start to use government transfer ... if you start to deflate government transfer payments because people start fighting over these things.

Anyway, by that standard, New York is the second poorest state in the country. If you use the full number, it's the poorest state. Mississippi. 49<sup>th</sup> or 50<sup>th</sup>. You have to believe her. So maybe you don't. But if it's not totally true, if it's only partially true, it's a big deal. I say in my little introductory statement I have on my home page that if you can just lower the cost of living by one percent in New York, you are talking about 11 [billion] dollars in economic value roughly. We argue a lot over a one billion dollar tax cut or tax increase as well we should. So this to me is real money. We don't really know, but I have to assume that a lot of this outmigration has something to do with regulation. And there are other sources.

Let's see. A couple more points. Thomas Sowell wrote a recent book called the Housing Boom and Bust and he talked about what happened here and he starts his whole narrative at ... land use in California ... and says that's ... when the prices of housing in California got out of control that is what impelled a lot of the banks to create these exotic mortgages. That doesn't make him right. But it's an interesting point of view, and he's a smart guy. I wrote a piece for Joel Kotkin's webzine, and it has a sort of take-off on California and I say that taxes in California aren't that different. What did I say? "If Californians were

tired of paying an additional 0.8 percent of their income in state and local taxes, what would they make of this study at the Bureau of Economic Analysis that said that the cost of living was a whopping 29.1 percent above the national average?"

Now my idea is that I was hoping to get economic people to post ... people, individuals, average business people who know what it costs plus potentially academics. I haven't had too much luck. So far it's a blog. But this did generate a thread that I found on the Internet from somewhere else and based on California ... it was a back and forth ... I am going to read it to you ... from Texas and California ... and this is a person who has a San Francisco 49'ers logo on his post. He's a builder, designer. Used to live in California ... lives in Texas ... he says:

"I could certainly do in California what I do here," build and design, "but as I stated a lot of the market there is corporate. It's corporate for the reason that it's so expensive, laborious and exhausting to build there. Especially coastal, there are so many hurdles to jump and the cost of doing business and buying property so high, that you have to have very deep pockets to do so, especially now that credit is so tight. From environmental impact studies, coastal commission review, high city impact & building fees, to water rationing, laborious licensing for all trades, high workers comp, high cost of property. All of those things I just listed are very minor or don't exist in Texas."

The Economist recently wrote [an article] California v. Texas ... that California ... may in fact lose for the first time in its history a Congressional seat in the next census ... Texas is able to accommodate this huge population. My contention is that a lot of it has to do with regulation. Texas may not be the prettiest place in the world but you can afford a home. The Economist said in this article that you can find a decent home, 1500 square foot, in Houston for \$100,000.

So I think these matter. Now a couple of sources for why I did this. One of them ... I will mention quickly... I was listening to Anthony Wiener last fall speaking at the Citizens Union, and his whole spiel was about "the middle class is leaving New York, the middle class is leaving New York." And then he says something, "but our income data are really high." Well, which is it? If nominal data were the only thing that mattered, then Weimar Germany would be rich. The question is what can you buy for your hard earned dollars, or Rupees or Euros or whatever? That's what they do internationally. That's what the World Bank would do ... purchasing power parity.

Another source was ... I was working as a policy adviser for a former Secretary of State, who was exploring a run for governor some years ago. African-American and wanted to run as a Republican. So I kinda had to scratch my head about that. And think about what some Venn diagrams might be where we could find a little common ground, possibly. And I feel a little uncomfortable about this, but it's already been raised ... by Jim Parrott and others. Race. And so one of the things that I wanted to bring to your attention ... because I think that it's astounding ... what is missing in our political discourse ... is where we are still the great progressive beacon of liberalism and the South is benighted and backwards and so forth. Anyone who knows the South, who has been to the South over decades ... knows there has been this astounding, phenomenal change. And African-American ... the prosperity that you see visually ... Yogi Berra said you can observe a lot just by watching ... African-Americans ... it's just night and day from what existed 30 or 40 years ago. And so, that seems to be a standard ... we always like to say that we care more and we want to fight inequality and obviously that's a major part of inequality in our history. So I looked at ... I tried to ... some of these median household incomes by race. There are a

number of states in the South, where African Americans have a higher standard of living than they do in New York. O.k. That's a problem. That doesn't say a lot for us. I looked at them ... just using the limited numbers from these professors at BEA, we see that ... let's see Georgia ... that's GA ... 38,405 median household income ... New York comes in at 32,177 ... North Carolina comes in at 33,260. These are places where the Civil Rights movement started ... where people couldn't get served. It's a dramatic, historical change. And not one that makes us look like we are really doing our job. So that I wanted to mention. I think that, so I think that there is a lot... I think that we need to do a better job ... Oh, let me make one last point....

As to the question of whether or not this is a valid way of looking at things, I came across something on the Internet, recently a paper ... I guess it was commissioned by the International Trade Commission in Washington, D.C. as part of the Doha Round, and what they did was, they used EIU, Economist Intelligence Unit, price estimates, and they used that, plus they used a complaint index, which is what my Forum is ... try to measure the impact of non-tariff trade barriers, which we can assume are something like regulation. They looked up the price of bovine meat among other things ... I think that's steak, hamburger and found tremendous disparities. So this is something that people are doing at a very high level. I think that it would be a great thing if people in New York tried to apply some institutional, human capital necessary to make that happen. But it shows you what popped into my head trying to think about this issue popped into some other people's head ... how do you measure these hard to measure things. Like regulation. It has a huge impact on people. But we can't look them up. It used to be with tariffs, you could look it up. You could see what the schedule is, you know, for propylene glycol, whatever, and find out what it was. You can't really look up a non tariff trade barrier. You can't really look up how much it costs to do an environmental impact statement. SEQR. All these things. So it's a huge part of our economy. Now in this ... oh, another thing I wanted to mention....

I had a little piece. This is from the Harvard ... it's actually from Bjorn Lomborg, who people don't like, but anyway ... a book he wrote some years ago about the environment but he cites, o.k. wrap up, Center for Risk Analysis ... and they say there's a tremendous disparity in the costs of regulation. One last thing in here is I talk about that you have...health care mandates ... that costs things ...there is a little graph that says there is a deadweight loss every time you do that ... I know you struggled through Regina Herzlinger .... You'll appreciate that. And I think ... so I won't get through all of these things ... maybe I will ... there is a [something] here about the Federal Register. You can sort of see it. There is a huge increase in regulation. There is a huge increase in lobbying. This is what is driving modern American politics. It's what's driving our economy. There was a big decrease in regulation during the Reagan years, and you may have noticed that the recession was very limited. Wall Street basically remade America. We missed that recession in New York City, largely. Because of the deregulation that occurred under Carter and under Reagan. So it matters. It has a very positive impact. What I was trying to say here is that I think we need to focus more on what should government do and what should it not do. I have a little thing in here. I was going to talk about ....

Bob Ward: Let me just go back to a point you made a couple of minutes ago, if I may, in wrapping up. Your suggestion that economists should start paying more attention to this issue. And no better way to close a conference than by assigning additional research. So I appreciate that very much.

Additional research. I am going to argue that we are still ... we talked today about education. People talk about the cost of housing. If you look at this other chart, it shows you that housing is a pure private good. It shows you that higher education is largely a private good. Health care is a significantly private good. I think New York, we are still living in the shadow of Richard Musgrave, the first person who started talking about what government should or shouldn't do. He talks about merit wants. Paul Samuelson comes along a little bit later, and it gets a little clearer. It's a lot clearer today. We need to understand what government should do and not do. We should understand that regulation has costs and we should do a much better job of measuring those, because it has a huge impact. And the final thing I wanted to say if you have been reading the Financial Times, and there are four articles in there. They have been running about a month campaign against finance and I know they are a kind of statist newspaper but Europe is looking at the gift horse of finance in the mouth, and basically saying take it out and shoot it. That has not shown up in America. This may be a huge boon for New York but if it's not and finance stops creating, generating these huge profits which we now know in many cases have been spurious, then we really do need to get our own house in order. Thank you.

Bob Ward. Very good.