MORE TO CONSIDER! re: PUBLIC EMPLOYEES AND COLLECTIVE BARGAINING

Stephen L. Bakke – March 14, 2011

Re-consider: This Reminder

A few days ago I wrote about some points to consider when evaluating the Madison Wisconsin public sector union collective bargaining dispute. As I write this, the situation hasn't changed in substance and it is developing into a "landmark" confrontation. Here are a few more things to consider, along with some related anecdotes and commentary.

Looking back at my last report on this topic, the most memorable and alarming points were:

- The retiring NEA official's statement that: *"Despite what some among us would like to believe it is not because of our creative ideas. It is not because of the merit of our positions. It is not because we care about children and it is not because we have a vision of a great public school for every child.* ***NEA and its affiliates are effective advocates because we have power ……*** *And we have power because there are more than 3.2 million people who are willing to pay us hundreds of millions of dollars in dues each year*
- Former NEA official John Lloyd stated that: *"You cannot possibly understand NEA without understanding Saul Alinsky.* ***If you want to understand NEA, go to the library and get 'Rules for Radicals.'"*** Alisky's self-described goal was to "organize for power." I also distributed my summary of "Rules for Radicals."
- A leader of AFSCME in New York City once bragged: *"We have the ability, in a sense,* ***to elect our own boss."*** (In reference to their power over elected officials.)

The reason I continue to focus on this event stems not only from its prominence and importance. I also persist because it's a difficult issue because workers' rights is so important in this "Land of Liberty," but also because much information about public service employee agreements and pension plans has been left out of the coverage. So, permit me to add more to the conversation.

Consider: Public Sector Unions – How and Why?

In 1919 Calvin Coolidge, then governor of Massachusetts, fired the entire group of striking public workers including the Boston Police Department. He dreaded the measure, but he agreed with the public sentiment in post-WWI America that labor was becoming contentious of public interests. He thought he had committed political suicide, but gained popularity and eventually advanced through the ranks to be President of the United States. But then, in 1962, President Kennedy issued an executive order which lifted the traditional ban on government employees organizing into bargaining units.

But why do public employees need unions? Of course, the argument is that they need to be protected from the manipulative devices of their employers – spell that "taxpayers." I don't argue with the goals of their formation, but for reasons stated elsewhere herein, the very nature of government prevents the important checks and balances necessary for an effective context for negotiation. **There's no balance of power which comes through competing interests.**

Consider: Pensions – Public vs. Private

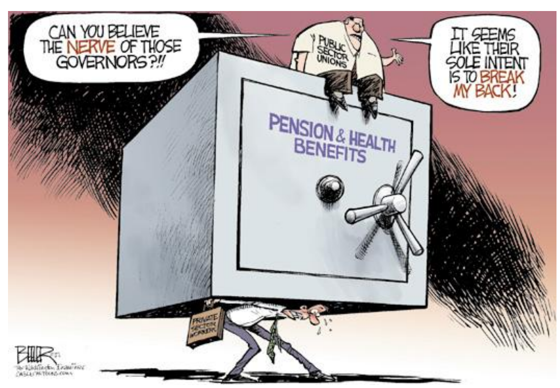
Most public sector pension plans are of the "defined benefit" type. This is in contrast to the private sector which has moved significantly in the direction of "defined contribution" plans.

Even those private sector companies that have some defined benefit plans remaining, have federal rules and guidelines for funding and reporting. Funding comes out of profits. If too much is promised and then funded (or attempted to be), profits are reduced significantly and the competitors are at an advantage. In the absence of a federal bailout, an overly generous company could theoretically, and realistically, have to sell out or even go out of business.

There are no such inherent controls in the public sector. No competition! No profit measurement! No meaningful incentive to save! No comparable measurement and disclosure requirement (as compared with a publicly traded corporation). Public unions negotiate with the recipient of their political contributions and their votes. They elect their own negotiating "opponents." **If a funding problem arises, politicians just raise taxes – voila!**

Consider: Comparison With Federal Employees

President Obama made a remark about the appearance of "union breaking" in Wisconsin. I believe that, from the start of the 2010 election process, the new governor's goal was to make Wisconsin's public employee structure more like the federal structure. Actually what is now in effect after Walker signed the new legislation last week, seems more "union friendly" than environment within which federal employees operate.

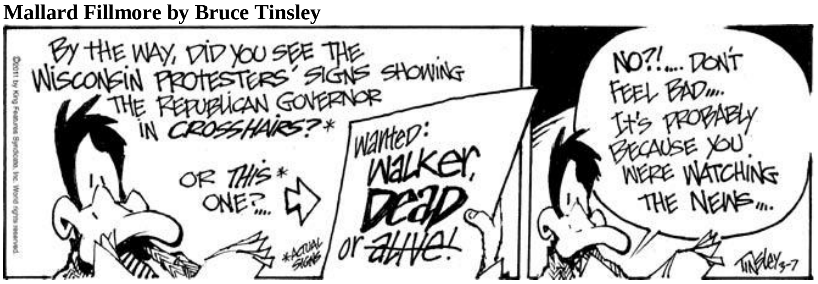


I understand that the federal employees are permitted to negotiate personnel policies – but it is not true "collective bargaining." President Obama seems satisfied with the status quo at the federal level since we hear none of his clamoring for federal collective bargaining rights. He has enough budget problems without introducing one more and knows in his heart it wouldn't be good for the U.S. to have unions with the type of influence exercised by many state employees, particularly Wisconsin's.

Consider: The Press Coverage

No one has evaluated the press coverage of the Wisconsin saga better than my old favorite, and trusted political advisor, Mallard Fillmore:

Mallard Fillmore by Bruce Tinsley



'Nuff said?!

Consider: Milwaukee's Public Sector Burden

Here I am pulling together a number of reports, most significantly that of Paul Greenberg, editorial page editor of the Arkansas Democrat-Gazette, and winner of a Pulitzer Prize for editorial writing – a proven, competent, and credible source.

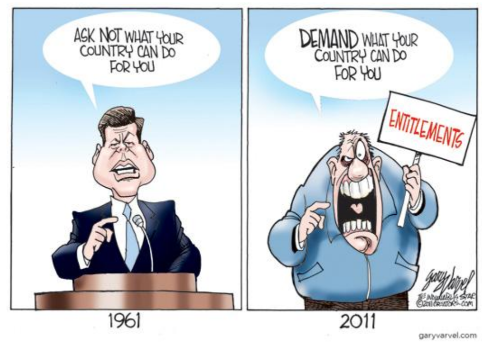
It helped clarify things for me to take a look at just a portion of the issues state and local governments in Wisconsin are dealing with. It's not the teachers' salaries that will soon be busting their budget – it's the "Cadillac" fringe benefits. For example:

- Workers in Milwaukee's public school district collect 74.2 cents in benefits for every dollar they make in wages. That compares to 24.3 cents in the private sector.
- An employer in the private sector collects, from their employees – by mandate – a contribution to Social Security and Medicare. Then the employer matches with 7.65% of the wage. In Milwaukee, Wisconsin's largest school district teachers belong to the state pension plan which requires a contribution of 6.8% of wages from the employer PLUS (usually) 6.2% from the employee. **Except that in Milwaukee, the public pays the teachers' share as well.**
- **AND**, in that district, teachers get another, supplemental pension funded by the school district to the extent of another 4.2% of their salaries. The teachers pay nothing!
- **AND,** in Milwaukee the teachers' union sponsors very generous insurance plans, and **GUESS WHAT!** The school employees pay none of the cost of their medical and vision benefits, and only half of their dental insurance.

- The Milwaukee school district ends up paying 38.8% of these employees wages for their health insurance. That compares to a national average for the private sector of 10.7%.
- How about Milwaukee's retired public employees? **The public pays the entire health insurance premium at the level that was in effect at retirement.**

Bob Costrell is an economist in the Department of Education reform at the University of Arkansas. He recent wrote an op-ed piece about the Milwaukee situation for the Wall Street Journal, from which I quote:

> *Overall, the school district's contribution to health insurance for employees and retirees total about 50.9 cents on top of every dollar paid in wages. Together with pension and Social Security contributions, plus a few small items, one can see how the total fringe benefits reaches 74.2% [of wages].*



Down the road a few miles in Madison, Wisconsin, the union contract for city bus drivers favors the senior employees by permitting them to work significant overtime. Rather than hiring more drivers, these drivers are permitted large earnings in their final years of employment which also enhances their retirement benefits. One Madison driver made $159,000 in 2009 – about $100,000 of which was from overtime. A number of other drivers also earned over $100,000.

Obviously, it makes sense that Governor Walker is perfectly willing to bargain over the salaries of state public employees – that's not what has the potential to "break the bank." It's the benefits which he has so doggedly pursued for exclusion from collective bargaining. In the case of districts like Milwaukee, the fringes have become almost as large as the base salaries.

Consider: Indiana's Experience

There are a total of 12 states have no collective bargain in any form. A recent Heritage Foundation report reminds us that it was six years ago that Indiana Governor Mitch Daniels repealed collective bargaining for Indiana government employees. In that case he could do it by executive order since it was a similar order that instituted it initially. There wasn't much "ruckus" over that. Most reports I have read indicate it was well received and that Indiana's government became more efficient and responsive. Average pay for Indiana state employees has actually increased, and top-performers are rewarded with pay increases or bonuses. We shouldn't be surprised that Governor Daniels is now very popular. Wisconsin Governor Walker pointed to Indiana's example in statements quoted in the Wall Street Journal.

Consider: Stories from Other States

Some of the following is anecdotal. Some of it applies only to isolated groups of public employees. Nevertheless I present it as unfortunate situations that can arise – even if in isolation. And even isolated incidents of "unintended consequences" can lead to waste, corruption, and political unrest.

New York State – After years of catering to state employee union demands, according to a recent New York Times editorial, salaries and benefits for state employees amount to $18.5 billion. In 2009, statewide average income was $46,957 compared to state workers who averaged $63,382. In 2000, the cost to fund New York state pension plans was $100 million. It is now $1.5 billion. And the workers only have to contribute 3% of their pay toward their retirement. That is more than the Milwaukee workers, but about half the percentage typically contributed by state workers nationwide.

The state also permits double-dipping whereby a state employee retires with a pension and then goes to work once again for the state – hence they collect the pension and their salary. There are reported to be 2,000 employees enjoying this "gulp from the public trough."

New Jersey – State police in New Jersey can swing it so that they can retire at age 45 with a guaranteed pension of 65% of their last years' pay. Not bad!

California – Here's one that's hard to believe. George Will reported that "about 80 cents of every government dollar goes for government employees' pay and benefits." Using what's called a "3 percent at 50" formula, employees with merely 20 years' service can retire at age 50 and receive 60 percent of the average of their three highest earning years. They can also enhance their retirement benefits by working a lot of overtime in their final three years of service.

Last But Not Least, Minnesota – My own state of Minnesota hangs right in there. On Sunday, March 13, 2011, the Minneapolis Star Tribune had an interesting report. For example, the retired Hennepin County sheriff makes more in retirement than he did "on the job" in the '90s. He now draws just under $150,000 per year. A former Hennepin County administrator, who retired in 1992, now collects almost $170,000 per year. The annual pension is almost $140,000 from the state and the U of M for a former Transportation Commissioner. A former governor, with a very few years of service, collects almost $90,000 annually. A former suburban school superintendent tops $176,000 per year. Another receives almost $170,000 annually.

The list goes on and on. While the average Minnesota public employee retiree makes FAR less than these examples, the fact remains that a system lacking a competitive environment in negotiations can end up with some of these unfortunate results. Many of these extreme examples are the result of an agreement what permitted many pensions to ratchet upward in times of stockmarket gains, but didn't have to be reduced when the market collapsed. If some of the top earners had their pension fairly moderated, there would be more for the average employees. Isn't it that sort of equality that progressives are usually pushing for?