Public Employees as the Enemy

Making of the States' Unnecessary Fiscal Crises and the Attack on Government and Public Employees

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Abstract

This paper reviews the politics and economics of the retrenchment in public employment and the rollback in rights for public employee bargaining rights. The states faced revenue shortfalls, primarily because of an inadequate federal stimulus program to respond to the financial crisis. Enacting a second stimulus became impossible with the Republican sweep of the 2010 elections in the House of Representatives and in many states. Many states legislatures refused to enact increases in taxes or fees. Instead, the Republican Party advocated tax cuts and budget reductions to restore the economy. Each state is constitutionally required to balance its budget, so they were unable to engage in deficit spending to stimulate their economies. Consequently, the states were forced to look at expenditure reductions, and employee staffing and compensation became their main target for cuts.

During 2011, public employee compensation became the focus of a highly charged political controversy as U.S. states grappled with acute revenue shortfalls brought about by the most serious economic contraction and financial crisis since the Great Depression and by the political failure of the federal government to adequately stimulate depressed economic activity. The states' dire fiscal circumstances unleashed a search for solutions and culprits. Forty-five states projected budget deficits for fiscal year 2012 totaling $103 billion (McNichol, Oliff, and Johnson 2011). Several governors identified excessive public employee compensation as a major cause of their states' fiscal duress. Some prominent newly elected Republican governors mobilized their Republican legislatures to cut public employee pay, reduce benefits, modify or eliminate collective bargaining rights, abolish civil service rules, increase managerial discretion in both pay and layoffs, and privatize public services. Many other governors, Democratic and Republican alike, led initiatives that successfully cut benefits and froze pay without altering collective bargaining rights. Twelve of the 37 states that provide at least some public employee bargaining rights weakened employee rights. Even Massachusetts, with a completely Democratic state government that was grappling with rising health insurance costs, provided local governments with more managerial discretion in implementing changes to health insurance plans and employee cost sharing.

State tax revenues were substantially reduced because of the contraction in economic activity and significant reductions in private employment. While state revenue declined, annual state expenditures for Medicaid and unemployment insurance increased by an estimated $6.5 billion as a result of increases in unemployment (Holahan and Garrett 2009). The main budget problem, however, was reduced revenue. Beginning in 2007, state personal income tax revenue decreased by 18% by 2010, state corporate income tax revenue declined by 28%, and state sales tax revenue declined by 9%. The revenue reductions from those three taxes accounted for $101.2 billion in lost state and local revenue (U.S. Census 2011), an amount equivalent to 2011 state deficits.

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The federal stimulus—the American Recovery and Reinvestment Act of 2009—partly offset these state tax reductions in FY 2009 ($31 billion), FY 2010 ($68 billion), and FY 2011 ($59 billion) (McNichol, Oliff, and Johnson 2011). The stimulus funding for states expired as the newly elected Republican U.S. House of Representatives vigorously opposed its renewal. This lack of federal support to help the states manage their revenue shortfalls created an unnecessary fiscal crisis in most states, resulting in public employment reductions of 726,000 jobs by 2013 and ongoing demands for compensation concessions. These reductions in public employment also decreased the demand for private sector labor and slowed the recovery of the states' tax bases.

This paper reviews the politics and economics of the retrenchment in public employment and the rollback in rights for public employee bargaining rights. The states faced revenue shortfalls, primarily because of an inadequate federal stimulus program to respond to the financial crisis. Enacting a second stimulus became impossible with the Republican sweep of the 2010 elections in the House of Representatives and in many states. Many states legislatures refused to enact increases in taxes or fees. Instead, the Republican Party advocated tax cuts and budget reductions to restore the economy. Each state is constitutionally required to balance its budget, so the states were unable to engage in deficit spending to stimulate their economies. Consequently, the states were forced to look at expenditure reductions and, in particular, employee staffing and compensation became their main target for cuts.

The Economics and Politics of Crisis

Since the summer of 2007, the U.S. economy has contracted without any meaningful recovery for many Americans. While corporate profits returned to record levels in 2011 and the stock market rose from its 2009 lows to record highs in 2013, worker income declined (Norris 2011). Likewise, the official unemployment rate, although declining, remained high (7.5%), and the real unemployment rate exceeded 13%, (which includes people who want full-time work but do not have it (BLS April 2013 A-13 U-6). Households had recovered only 50% of their net worth by 2012 (St. Louis Federal Reserve 2013).

The Great Recession officially began in December 2007 and ended in June 2009, according to the National Bureau of Economic Research. Over the course of the recession, the nation's gross domestic GDP went from $13.4 trillion during the fourth quarter of 2007 to $12.8 trillion in the second quarter of 2009, a decline of 4.1%. Since the official end of the recession in June 2009, the GDP has reversed its decline and by the first quarter of 2011, it had surpassed pre-recession levels. However, the recession unleashed the worst financial crisis in modern history. In November 2008, under great duress from the Federal Reserve, Bear Stearns was merged into JP Morgan Chase; this event announced the beginning of a U.S. financial crisis, which was followed by the U.S. Treasury in September 2008 placing the government-sponsored enterprises Fannie Mae and Freddie Mac into conservatorship. When Lehman Brothers failed in October 2008, it was apparent that the financial crisis had not been contained and a long-term global financial crisis was under way in Europe and North America.

While the United States' GDP was recovering in 2009, the same could not be said about the labor market. The nation's output recovered without a turnaround in jobs (Fogg and Harrington 2011). Total private employment declined by 10% (a loss of 11.7 million jobs) from June 2007 to January 2010. In April 2013, private employment had partially recovered but was still down 3% (3.4 million jobs). Lagging the decline in private employment by a year, state and local government employment began its decline in July 2008 and has continued to decline through April 2013, with a loss of 726,000 jobs (3.7% of employment).

The federal stimulus of $787 billion contained in the American Recovery and Reinvestment Act (ARRA) of February 2009, and extended in August 2010, partly offset state tax reductions in FY 2009 ($31 billion), FY 2010 ($68 billion), and FY 2011 ($59 billion) (McNichol, Oliff, and Johnson 2011). The stimulus was effective in creating jobs, according to the Chodorow-Reich, Feiveson, Liscow, and Woolston (2011) analysis of the ARRA. Their research examined the employment effects of the ARRA increase of $88 billion of Medicaid reimbursements administered by state governments; their baseline econometric specifications suggest that $100,000 of marginal spending by states increased employment by 3.8 job-years, 3.2 of which were outside the government, health, or education sectors.

Nevertheless, the stimulus was inadequate to solve the jobs crisis and state revenue shortfalls. During the 2009 fiscal year, 43 states faced budget gaps totaling more than $60 billion (National Conference of State Legislatures 2009). By July 2009, 42 states had made cuts to their expenditures totaling more than $30 billion, and 30 states had increased taxes or fees to boost their revenues. The total fiscal relief provided to the states by the Recovery Act was $141.1 billion from 2009 to 2011. In 2011, federal aid to states decreased by $1.6 billion from 2010. In 2012, annual state appropriations were estimated to have decreased by $24.9 billion from 2011. The Republican U.S. House of Representatives vigorously opposed the expansion or the renewal of the Recovery Act. This lack of federal support to help the states to manage their revenue shortfalls created an ongoing fiscal crisis in most states, resulting in public employment reductions in excess of 726,000 jobs by April 2013 and public employer demands for compensation concessions.

While the states' fiscal problems arose mainly from reduced tax revenue due to the contraction of economic activity, reductions in private sector employment, and the expiration of federal stimulus support, states were nonetheless required by their respective constitutions to balance their budgets. Without adequate state revenue to maintain state services, governors and legislatures in 2011 increasingly turned their focus on expenditure reductions, particularly public employee compensation, which accounts for 44% of state and local expenditures (McNichol 2011).

Elections Matter

In the elections of November 2010, a mobilized Republican Party swept into power in many states, claiming the governorships and both state legislative bodies in 21 states, energized by the Tea Party that emerged as a reaction to the election of Barack Obama as president. The Tea Party is a decentralized organization with more than 1,000 local chapters, informed by right wing media (talk radio and Fox News) and free market policy groups funded by Libertarian billionaires. They oppose the expansion of government, including ObamaCare and the ARRA, but support Social Security and Medicare. They also opposed the GM and Chrysler bailouts, which they viewed as a bailout of the UAW. This conservative mass social movement consists largely of older, white people, many of whom are small business owners and are anti-environmental, anti-union, anti-abortion, anti-immigrant, anti-Muslim, anti-intellectual, anti-youth culture, and pro-gun (Skocpol and Williamson 2012).

The Tea Party pushed Republicans to the right or replaced those who refused to move right. Twenty-nine states had Republican governors by 2011, some of whom seized on the fiscal crisis as an opportunity to permanently hobble the Democratic Party by greatly weakening public sector unions, which tend to be reliable Democratic supporters. Most important, the rightward Republican shift reshaped the politics of Wisconsin, Michigan, Ohio, and Pennsylvania. In the 2011 budget year beginning in February 2010, the Republican Party and allied organizations launched an all-out public relations campaign attacking public employees, public sector unions, and collective bargaining[1].

The Republican criticism of public employee collective bargaining was not evidence based or informed by any blue ribbon commissions, scholarly analysis, or public outcry. Collective bargaining became a politically convenient target to explain the dire condition of state and local government finances after the financial and economic crisis. The Republican Party opposed any stimulus spending. Instead, it focused on deficit reduction at the federal level and opposed any methods of revenue enhancement at the state and local levels—whether it be in the form of taxes or fees—while continuing to advocate tax cuts.

Their solutions to the fiscal crisis presumed that public employees were overpaid. The data analysis, however, indicates that public employees, both state and local government, are not overcompensated. Comparisons controlling for education, experience, hours of work, organizational size, gender, race, ethnicity, and disability reveal no significant overpayment but rather a slight undercompensation of public employees when compared with private employee compensation costs on a per-hour basis. On average, full-time state and local employees are undercompensated by 3.7% compared with otherwise similar private sector workers. The public employee compensation penalty is smaller for local government employees (1.8%) than for state government workers (7.6%) (Keefe 2012; Lewin, Keefe, and Kochan 2012). If public employees are not overpaid, then why do so many politicians and citizen believe they are? For one reason, there are a great number of often inaccurate anecdotes about public compensation mischief that are easily understood and often covered by the media.

Even states with mature labor–management relations embarked on changing the rules of collective bargaining. Most surprising were the major modifications proposed in three Midwestern states—Wisconsin, Ohio, and Michigan. Each had a long history of stable public employee collective bargaining. Lead by newly elected Republican governors supported by two Republican majority legislatures, these states made substantial amendments to their public employee labor laws. Each one of these new enactments has since faced serious legal challenges, political contests, and public opposition.

Overall, the most onerous law from the standpoint of collective bargaining rights was passed in Wisconsin as part of the Budget Repair Bill (SB 10) introduced on February 15, 2011 (Malin 2012). In his *Wall Street Journal* op-ed column, Wisconsin governor Scott Walker maintained that his legislative changes would "confront the barriers of collective bargaining that currently block innovation and reform (Walker 2011)." Polling data indicated that the Wisconsin public supported the unions and opposed Walker's changes to public employee collective bargaining (Pew, February 28, 2011). The enactment of the law led to numerous political and legal battles between Governor Walker and a reinvigorated labor movement in coalition with many community organizations. Walker survived a recall vote in June 2012; however, the majority of the state Senate switched back to Democratic control through the recall process. The Wisconsin law for nonpublic-safety employees limits bargaining to one subject: wages, which in turn is limited to base wages and excludes any other wage or compensation issue. The law also requires annual union recertification elections by bargaining units, prohibits dues deductions by any public employer, prohibits union security clauses, mandates one-year nonrenewable contracts, repeals interest arbitration, outlaws all strikes, and repeals collective bargaining rights for the University of Wisconsin system's faculty and academic staff (Malin 2012). A U.S. federal court in 2012 reversed the bill's requirement to hold annual union recertification elections in order to maintain representation rights and ended the prohibition of union dues collection through payroll deduction.

Next up, newly elected Ohio Republican governor John Kasich signed into law Senate Bill (SB) 5 on March 31, 2011. Throughout the debate, Governor Kasich claimed that the proposed law was not an attempt to eliminate unions but rather was aimed at restoring "balance to the system." A ballot repeal was immediately organized, which prevented the law's implementation. The repeal of Ohio SB 5 appeared on the November 8, 2011, general election ballot, and it was defeated by a margin of 2,145,042 (61.3)% to 1,352,366 (38.7%) (Keefe 2012). The bill would have greatly limited the collective bargaining rights of Ohio's 525,000 state and local public employees. The bill restricted public employee collective bargaining on economic issues to wages and prohibited them from bargaining for health insurance and pensions. It further limited the scope of bargaining on employment and administrative issues while greatly expanding management rights. All forms of binding interest dispute resolution were eliminated by the bill, including interest arbitration and the right to strike. The bill also mandated performance pay, reduced sick days, and capped vacation leave. It outlawed agency shop provisions and mandated only open-shop agreements. It also provided that when at an impasse in negotiations, the governing body of a city, school, or township could implement its offer. The bill provided that employees of publicly funded charter schools would be excluded from the right to collective bargaining (Ballotpedia 2011).

Another far-reaching law is Michigan's Local Government and School District Fiscal Accountability Act of 2011 (Malin 2012), which was signed into law by newly elected Republican governor Rick Snyder on March 16, 2011. It permits the governor to appoint an emergency manager who, among other things, has the power to reject all or part of a collective bargaining agreement upon finding that there is a financial emergency. Additionally, the emergency manager could remove elected officials, privatize services, and sell public assets. Within the first year after enactment, four cities and two school districts were placed under emergency management including Pontiac, Benton Harbor, Ecorse, and Detroit, each of which were assigned state-appointed emergency financial managers (Ballotpedia 2012). This reform was promoted as necessary to resolve current fiscal problems and rein in excessive unionized public employee compensation. The opponents of the act fulfilled the requirements for a referendum. While the opponents won the referendum, Governor Snyder used the lame duck Republican legislature to pass a modified Emergency Manager Law; the City of Detroit has since been placed under its requirements and entered into bankruptcy.

Myth as a Diversion from the Real Problem: Lack of Jobs

There are perennial, well-funded institutional critics of government, government spending, and public employees—for example, the Cato Institute, the American Legislative Exchange Council, and the Reason Foundation. They generate a steady stream of critiques about government and government programs that often conclude with a call for privatization of government functions and tax reductions, while alleging all sorts of government inefficiency and excessive spending. Periodically, some of these criticisms gain traction with the public. The most recent popular round of anti-government denigration has focused on public employee compensation and the role of collective bargaining for public sector employees. It began in New Jersey with the election of Chris Christie as governor in November 2009.

Candidate Christie ran as a moderate Republican against a Democratic incumbent, Governor Jon Corzine. As a result of rising unemployment and falling state revenues, state budget cuts were offset by municipalities and school districts by substantially raising local property taxes. Governor Corzine failed to overcome rising public anger at escalating property taxes. In his campaign, Christie did not run as an anti-government Republican who was hostile to public employees. Instead, he courted the police and firefighter unions. Candidate Christie said he opposed any change in pension benefits for firefighters and law enforcement officers, including "current officers, future officers, or retirees." He described the pension agreement as "a sacred trust." As a Republican candidate, Christie was critical of failing public schools and not surprisingly promoted state-funded vouchers and charter schools as solutions. Beyond that, he had little to say about public sector employment or labor relations during his campaign.

Having won by not being the incumbent, Christie had no plan to improve a deteriorating employment situation or the growing budget deficit. As the newly elected governor, he needed a strategy that did not require stimulus support from the federal government and did not raise taxes or fees. In January 2010, he launched his crusade against public sector employees and their unions. In a complete reversal from his campaign promises, he announced that police and firefighters must agree to lower salaries and benefits or else municipalities should impose layoffs. Christie, however, focused the fury of his attack on the New Jersey Education Association (NJEA) and teachers. He demanded merit pay for all teachers, an end to tenure and seniority, more charter schools, and a voucher plan for failing urban schools. He went on to demand pay freezes and increases in employee health insurance and pension contributions for all public employees. He berated public employees as selfish, overpaid, and pampered, with parochial interests that had been protected for too long by their unions. In his inaugural address, he stated, "This is a fight I will not shy away from."

The anti-public employee campaign was launched. For the next several months, Christie held several press events every day. He portrayed overpaid public employees as the chief cause of rising property taxes and said the only fair solution was to roll back taxes by insisting that public employees accept less. Again, his anger and outrage was focused on the 200,000-member NJEA. On April 5, 2011, on national television, Christie described NJEA leaders as a "group of political thugs." His assault was relentless. At the end of June 2011, he passed a state budget with the help of a stunned and divided Democratic majority legislature that capped property taxes at 2% annual increases for three years, greatly reduced the state's support for schools and municipalities, imposed a 1.5% of salary employee contribution to health insurance, and revised retirement rules for new employees. The new budget resulted in municipal and school layoffs, local concession bargaining, and substantial reductions in services.

Christie became a Republican sensation, offering a road map to aspiring governors. Most important, he demonstrated that a Republican could become a successful governor without ever presenting a plan to restore jobs or revitalize the economy, provided that the governor demonizes overpaid public employees and their unions, stays on the attack, and can dominate the headlines.

The Media Join Frenzy

Governor Christie might not have enjoyed his rise to national stature without aid from the media. He provided them with multiple colorful news events, which increased their sales and revenue. But they also endorsed many of his proposals. New Jersey's largest newspaper, for example, on February 28, 2010, published an above-the-fold, front-page editorial, "It's Time: Freeze N.J. Public Workers' Pay, Change Bargaining Rules" (*Star-Ledger* 2010), which was accompanied by a graphic displaying average salaries of public sector employees. However, the *Star-Ledger* failed to make an appropriate comparison of public and private employee compensation before declaring that public employees are overcompensated. The editorial board, rushing to reach its conclusion, selectively omitted local government employees in their comparison. Using the *Star-Ledger's* data source,[2] I found that New Jersey local government employees were paid $54,245 annually on average, some $684 less than the average private sector employee—a critical oversight because local government employees account for 75% of New Jersey public employment. This omitted fact, important as it may be for a balanced assessment, however, did not support the editorial board's preferred "nuclear option" for public employment and collective bargaining.

While New Jersey's public employee annual earnings may appear high, the state ranks among the highest in pay for all managerial, professional, and skilled occupations and second in per capita income, family income, and household income (U.S. Census 2008). New Jersey, for example, ranks first among states in management pay (BLS 2009). An analysis of New Jersey public employee compensation controlling for education, experience, hours of work, and demographic found no overcompensation for New Jersey state and local employees (Keefe 2010).

Reform Collective Bargaining?

Both Governor Christie and the *Star-Ledger* targeted collective bargaining for reform. Their concern, however, was not with basic collective bargaining rights but with police and firefighter interest arbitration. They argued that interest arbitration was producing exorbitantly expensive contracts because arbitrators, when fashioning awards, were giving greater weight to community pay comparisons rather than the government's ability to pay. They sought a series of reforms, which were eventually enacted in December 2010 and signed into law.

The proposals, the debate, and the eventual reforms clearly demonstrated how ill-informed the Republican protagonists were about collective bargaining. New Jersey's interest arbitration system has worked pretty well. As is often is the case in bargaining, union and management representatives need someone to blame for their inability to meet the expectations of the negotiating parties. Arbitrators are convenient scapegoats. Unfortunately, people began to take seriously the negative comments arising from management's need for scapegoats.

New Jersey has more than 1,000 police and firefighter bargaining units covered by interest arbitration. Each year, nearly 300 contracts are negotiated. Approximately 110 interest arbitration petitions are filed each year, which has become a step in the negotiating process. However, the state on average awards only 18 interest arbitration awards each year, with all other filings resulting in voluntary settlements. For the period 2005 through 2010, *all* interest arbitrators were selected by mutual agreement of the parties. In the period 1996 through 2009, only 14 arbitrator awards were vacated and remanded. The monetary arbitration awards, after adjusting for inflation, provided 1.36% annual increases, while voluntarily negotiated agreements were slightly higher, averaging 1.43%. Neither health insurance benefits nor pensions are subjects of bargaining in these cases. The scope of bargaining is extremely narrow in New Jersey, with most work rules, employment levels, and subcontracting being reserved rights of management.

Christie's 2010 arbitration reform caps awards at 2% average annual increases. It provides procedural fixes for many unbroken processes and requires a fast-track arbitration process that allows only 45 days from the filing of a request for interest arbitration to the date of award, without any extensions. This virtually eliminates mediation from the process[3]. If arbitrators do not comply with the 45-day deadline, they are penalized financially. Arbitrator pay is capped at $1,000 per day and $7,500 per case. All appeals must be decided within 30 days. This has led to only six arbitrators being willing to serve on the interest arbitration panel. The reform also increases ethical standards and requires more regular training for interest arbitrators.

Rather than allow the parties to mutually select an arbitrator, the reform process randomizes the selection of arbitrators.[4] The legislation is scheduled to expire in three years (January 2014). The procedural reforms were greeted with incredulity by the labor and management professional community. A common refrain has been "What problems were they trying to fix?" Nevertheless, Christie delivered on his promise to reform collective bargaining over the objections of some Democrats, as well as the police and fire labor organizations.

In 2011, Christie focused on teacher tenure rules and on shifting the costs of employee benefits to employees. Pensions were never subject of collective bargaining, and the State of New Jersey has failed to make its contributions to the pension plan since 1991—which has negatively affected the state's bond rating. In June 2011, employee contributions were significantly increased for all defined benefit plans, with promises of full state contributions in five years. Health insurance design and costs had been a subject of bargaining in New Jersey, but June 2011 legislation structured employee contributions for the next four years, effectively removing health insurance from bargaining. Democrats ensured that employee contributions were progressive, ranging from 10% to 35%, averaging 20% as requested by Christie. Teacher tenure rules were restructured, and time to tenure was extended to four years. Performance rules and a procedure for teacher terminations were included in the legislation. Universal performance evaluations are scheduled to be implemented in September 2013; however, as of July 2013 they had not been designed.

The Christie Campaign and Governing Strategy Becomes the Republican Formula

Chris Christie, as a Republican, was economically handcuffed by his party's focus on federal deficit reduction, as well as advocacy for balanced budgets without any tax increases. Although he was elected largely as a negative reaction to the incumbent, who presided over the worst economic crisis since the Great Depression, Christie could not advocate for more stimulus funding or tax increases. He needed a governing strategy that could work in an environment where state tax revenue had declined by more than five billion dollars (15%) and where ARRA stimulus money to the states was ending.

By targeting overpaid public sector employees, "broken" rules for collective bargaining rules, and public employee unions as the diversionary cause of the state's fiscal difficulties, Christie's campaign has allowed him to govern without ever offering a meaningful economic program to restore employment or state revenue. More important, his campaign was a recipe for prolonging the downturn by cutting public employee compensation and employment. Although Christie remains popular, New Jersey's unemployment exceeds the national average by two percentage points, and the state's budget reductions have fallen disproportionately on poor urban communities, particularly children. In fact, Christie's job creation record in the first year of his term was the worst in the nation. New Jersey was one of five states that continued to lose jobs in 2010, and it lost more jobs than any other state (Keefe 2011). New Jersey was the exception in the Mid-Atlantic region, which performed well in job creation. Pennsylvania ranked third nationally, adding 73,000 new jobs; New York ranked seventh, with 45,500 new jobs; and New Jersey ranked dead last, losing 15,000 jobs. Since the peak in June 2007, New Jersey had lost 400,000 jobs as of January 2011.

In addition to New Jersey's large job loss, the state's tax revenue declined by $5 billion, or 15%, which produced the budget crisis. What Christie has demonstrated is that by going on the offensive and attacking public employees and unions, a governor does not need a plan to restore jobs, revitalize the economy, or recover the tax base to be "successful" politically. That strategy became a winning plan for Republican aspirants for governorships in 2010.

The Republican Echo Chamber

Chris Christie became nationally known for his statement:

> *There are two classes of people in New Jersey: public employees who receive rich benefits, and those who pay for them.*

As can be observed in the following statements, there is a Republican echo chamber for anyone who wants to hold an elected executive position. Governor Mitch Daniels of Indiana (and former presidential candidate) said the following:

> *We have a new privileged class in America.*
>
> *We used to think of government workers as underpaid public servants. Now they are better paid than the people who pay their salaries.*
>
> *Who serves whom here? Is the public sector—as some of us have always thought—there to serve the rest of society? Or is it the other way around?*

Former governor of Minnesota Tim Pawlenty (and former presidential candidate) stated:

> It used to be that public employees were underpaid and over-benefited. Now they are over-benefited and overpaid compared to their private-sector counterparts.

Former governor of Massachusetts Mitt Romney (and former presidential candidate) said:

> *Average government workers are now making $30,000 a year more than the average private sector worker.*

Republican gubernatorial candidates adopted the Christie plan in 2010. Most of the candidates successfully ran center-right campaigns, taking full advantage of public anger about the economy to blame Democratic incumbents without revealing their real intentions. All were successful except Meg Whitman in California. Following the Christie script, Scott Walker in Wisconsin, John Kasich in Ohio, and Rick Snyder in Michigan, once sworn into office, went on the offensive with aggressive programs aimed at overpaid public employees, collective bargaining, public employee unions, and the excesses of government. However, unlike New Jersey, they had Republican legislatures, which allowed them to pursue and implement more radical programs. But have they over-reached? A Gallup poll taken at the end of March 2011 showed that the public supported, by a margin of 48% to 39%, public employee unions over governors where there were disputes between the governors and state employee labor unions over collective bargaining policies and the state's budget.[6]

The Media Add Emphasis to the Echo Chamber

Public support shifts against public employees and their unions when the issue becomes compensation rather than collective bargaining rights. The media have fueled the myth of the overcompensated employee. *USA Today* on March 1, 2011, for example, ran a front-page story that listed 41 states where public workers "earn more" than private sector employees. On the basis of data from the Commerce Department's Bureau of Economic Analysis (BEA), the newspaper article stated that that Wisconsin state and local government workers earn $50,774 per year on average, about $1,800 more than the average private sector workers.[6] The BEA data also indicated that public employee compensation has grown faster than that of private workers since 2000, primarily because of the rising value of benefits.[7] This comparison, like so many that appear in the press, was meaningless. The typical public employee holds a college degree, while the median private sector employee holds a high school diploma. These comparisons find that an average college graduate earns more than the average high school graduate, which should be no surprise to anyone. But these distorted comparisons have served to fuel the public's outrage about public employee pay.

This concern about public employee pay is captured in the polling data. An NBC-Wall Street Journal poll taken in February 2011 showed that 62% of respondents supported public employee rights to collective bargaining, while only 33% support such limits. The poll also found that 77% of respondents agreed that public employees who belong to a union and work for state government, city government, or a school district should have the same right as employees who belong to a union and work for private companies to bargain for their health care, pension, and other benefits. However, when it came to pay, respondents by sizeable margins believed that public employees should contribute more to their retirement benefits (68%) and health benefits (63%) and should have their pay frozen for one year (58%).[8]

My prior analyses of New Jersey, California, Wisconsin, Michigan, Ohio, and other state and national data demonstrate that state and local government employees are not overpaid and may be slightly undercompensated (Keefe 2010; Allegretto and Keefe 2010; Keefe 2011a, 2011b, 2011c). When I make comparisons controlling for education, experience, hours of work, organizational size, gender, race, ethnicity, and disability, the public employment compensation penalty is relatively small, but there remains a significant difference between private and public employee total compensation costs.

These data analyses also reveal substantially different approaches to staffing and compensation between the private and public sectors. On average, state and local public sector workers are more highly educated than the private sector workforce; 54% of full-time state and local public sector workers hold at least a four-year college degree compared with 35% of full-time private sector workers. For college-educated labor, state and local governments pay salaries that average 25% less than those paid by private employers. When I examine total compensation costs, college-educated public employees cost more than 20% less than similarly educated private sector employees. The earnings differential is greatest for professional employees, lawyers, and doctors. These earning differences may create opportunities for cost savings by reviewing professional outsourcing contracts to examine what work might be performed by lower-cost public employees (Keefe 2012).

The public sector appears to set a floor on compensation—particularly on improving the compensation of workers with high school educations—when compared with similarly educated workers in the private sector. This result is partly because the earnings floor has collapsed in the private sector (Lee 1999).

Benefits are allocated differently between private and public sector full-time workers. State and local government employees receive a higher portion of their compensation in the form of employer-provided benefits, and their mix of benefits is different than those in the private sector. Public employers underwrite 34.1% of employee compensation in benefits, whereas private employers devote 26.3% (small businesses) to 33.1% (large businesses) of their compensation for benefits. Public employers provide better health insurance and pension benefits. Health insurance accounts for 7.4% of private sector compensation but 11.2% of state and local government employee costs, a 50% greater share of employer costs. Retirement benefits also account for a substantially greater share of public employee compensation: 8.1% compared with 3.7% in the private sector. Public employees also continue to participate in defined benefit plans managed by the state (which many states have inadequately funded), while private sector employers have switched to defined contribution plans, particularly 401(k) plans (DOL, ECEC 2011).

When we comprehensively assess the total costs of state and local government employees, we conclude that they are not overpaid and may be slightly underpaid when compared with comparable private sector employees.

Labor's Political Responses to the Assault on Public Employee Collective Bargaining

Ohio Victory

The repeal of Ohio Senate Bill 5 appeared on the November 8, 2011, general election ballot as a veto referendum, where, as previously discussed, it was defeated by a margin of 2,145,042 (61.3%) to 1,352,366 (38.7%). Referendum supporters collected about 3,000 signatures during the weekend of April 1 of that year, more than adequate to trigger the first step in the referendum process. Then, on June 29, 1,298,301, signatures were submitted to the Ohio Secretary of State, who verified there were a sufficient number of signatures and referred the proposal to the Ohio Ballot Board for the election.

Consistent with Governor Kasich's contention that SB 5 was intended to restore "balance to the system," the Buckeye Institute in 2010 released a report titled *The Grand Bargain Is Dead.* The report compared the median wages of private and public employees in Ohio and incorrectly concluded that the total compensation package for state government workers far exceeds that of the private sector. The Buckeye Institute Report insisted that the public sector median compensation should be equal to that of the private sector. There is, however, no sound reason for this false equity. It is the equivalent of demanding that the median pay for high school graduates should be equal to the median pay of college graduates. The typical private sector employee in Ohio is a high school graduate, whereas the typical public employee is a college graduate. One of the most basic premises of labor economics is that there is an economic return to education, particularly for degree completion. Median public sector pay is higher than median private sector pay because the median Ohio public sector employee is substantially more educated than the median Ohio private sector worker (Keefe 2013).

Wisconsin's Recall Failed, But There Have Been Some Legal Victories

As part of his campaign platform, Scott Walker said he would create 250,000 jobs in his first term through a program that would include tax cuts for small businesses, capital gains tax cuts, and income tax cuts for the highest-earning Wisconsinites. He proposed cutting state employee wages and benefits to help pay for these tax cuts.

With the 2011 introduction of Walker's Wisconsin Act 10, also known as the Budget Repair Bill, which greatly restricted the rights of public employees, Walker's disapproval ratings varied between 50% and 51%, while his approval ratings varied between 47% and 49% in 2011.

The Wisconsin public response to the act was a series of demonstrations in Madison beginning in February 2011. At its zenith, there were as many as 100,000 protestors opposing the act. The demonstrations were a major driving force behind the multiple recall elections of state senators in 2011 and 2012 and of Governor Walker in 2012. They also led to a contentious Wisconsin Supreme Court election in 2011.

The effort to recall Walker officially began on November 15, 2011. On January 17, 2012, United Wisconsin, the coalition that spearheaded the recall effort along with the Democratic Party, claimed that one million signatures were collected, which far exceeded the 540,208 required and amounted to 23% of the state's eligible voters and 46% of the total votes cast in the 2010 gubernatorial election. That number was also just shy of the 1.1 million votes that Walker received in 2010. (The Wisconsin Government Accountability Board later announced that actually 931,053 signatures had been submitted.)

Walker reportedly raised more than $30 million during the recall effort, with a significant portion from out of state. On March 30, 2012, the Government Accountability Board unanimously ruled in favor of the recall election. The recall election for Walker took place on June 5, 2012. Walker won the recall election against Tom Barrett, his opponent in the November 2010 election. This was only the third gubernatorial recall election in U.S. history and the first in which the incumbent won. Walker won the recall by a slightly larger margin (53% to 46%) than the 2010 election (52% to 46%).

There were efforts related to the Budget Repair Bill to recall eight Democrats and eight Republican legislators. The Democrats were targeted for leaving the state for three weeks to prevent the Budget Repair Bill vote from taking place, while the Republicans were targeted for voting to seriously limit public employee collective bargaining. Scholars could cite only three times in U.S. history when more than one state legislator has been recalled at roughly the same time over the same issue.

Six Republicans and three Democrats faced recall elections in August 2011. The Wisconsin Government Accountability Board voted to conduct all the recall elections but scheduled the Democratic recall elections on August 16, one week after the Republican recall elections. On August 9, the Republicans won enough seats to keep control of the Wisconsin Senate, despite losing two seats, in the largest group of simultaneous recall elections in U.S. history.

On March 30, 2012, a federal court struck down key parts of the collective bargaining legislation, ruling that the state cannot prevent public employee unions from collecting dues and cannot require they recertify annually. On September 24, the State of Wisconsin appealed that decision at the U.S. Court of Appeals for the Seventh Circuit. In January 2013, the Court of Appeals upheld the Wisconsin collective bargaining law.

Michigan's Referendum: One Step Forward and Two Steps Back

Michigan unions placed two major referendum initiatives on the ballot in the 2012 elections. The first would have enshrined the right to collective bargaining into the state's constitution. It was defeated by a margin of 58% to 42%. Michigan unions, however, did succeed with a second separate referendum campaign to overturn a law (53% to 47%) that allowed the state to appoint emergency managers to run financially distressed communities, including revising or scrapping union agreements.

Following the measure's defeat, Governor Rick Snyder and state lawmakers quickly began the process formulating a replacement for the law. On December 13, 2012, the Michigan legislature approved a new version of the emergency manager bill, which was then signed by Governor Snyder on December 27. The new bill offers financially troubled local governments the ability to choose from four options: accept an emergency manager, undergo bankruptcy, enter into a mediation process, or join the state in a partnership under a consent agreement. Choosing one of these options is mandatory if the local government meets the bill's criteria; there is no opting out of this program. Opponents of the bill said that no matter what option is chosen, the result would be state oversight. Though such oversight is essentially what voters rejected during the 2012 general election, the bill is not subject to referendum because it contains appropriations in the form of providing for the salaries of emergency managers.

The new emergency manager bill took effect on March 28, 2013. The lame duck Republican legislature also passed the Michigan Right to Work Law. The unions apparently misjudged the level of public support for entrenching union rights in the state constitution, even in a state that is home to influential unions such as the UAW (Greenhouse 2012). Greenhouse's *New York Times* article reported that Dale Belman, a professor of labor relations at Michigan State University, said that voters were uneasy with a proposal that might do so much, from barring right-to-work legislation to superseding state laws that barred communities from negotiating with public employee unions about specific issues. "It was broad and ambiguous and not sufficiently well-defined," Belman said. "With this loss, now there is some concern whether unions have proved their weakness."

Conclusion

New Jersey governor Chris Christie was elected largely as a negative reaction to the incumbent presiding over the worst economic crisis since the Great Depression. He ran a moderate Republican campaign in a Democratic state. What Christie demonstrated is that by going on the offensive and attacking public employees compensation, collective bargaining, and unions, a governor does not need a plan to restore jobs, revitalize economy, or recover tax base to be "successful" politically. That's a winning plan.

Most Republican gubernatorial candidates adopted the Christie strategy. Most of the candidates successfully ran center-right campaigns, taking full advantage of public anger about the economy to blame the Democratic incumbents, while not revealing their real intentions. All were successful except Meg Whitman in California. Following the Christie script, Scott Walker in Wisconsin, John Kasich in Ohio, and Rick Snyder in Michigan, once sworn into office, went on the offensive with aggressive programs aimed at overpaid public employees, collective bargaining, public employee unions, and excesses of government.

The media have served as an echo chamber for claims that public employees are overcompensated, even though the facts show the opposite. The data analyses reported in previous papers indicate that public employees, both state and local, are not overcompensated (Keefe 2012). Comparisons controlling for education, experience, hours of work, organizational size, gender, race, ethnicity, and disability reveal no significant overpayment but rather a slight undercompensation of public employees when compared with private employee compensation costs on a per hour basis. On average, full-time state and local employees are undercompensated by 3.7% compared with otherwise similar private sector workers. The public employee compensation penalty is smaller for local government employees (1.8%) than for state government workers (7.6%). Unfortunately, facts have played an extremely limited role in the campaign against public employee pay, collective bargaining, and public employee unions.

In the 2012 elections, Wisconsin, Ohio, and Michigan state governments remained Republican controlled. Wisconsin and Ohio have experienced significant economic recoveries, and their state budget revenues have returned to pre-recession levels. New Jersey and Michigan, however, remain mired in economic difficulties that are both cyclical and structural, meaning that their state revenues remain diminished, which indicates that the game of diminishing government and public employees is still in play.

Endnotes

[1] See, for instance, speeches by Governor Chris Christie of New Jersey, Governor Mitch Daniels of Indiana, former Governor Tim Pawlenty of Minnesota, and former Governor Mitt Romney of Massachusetts. In addition, see Governor Scott Walker's op-ed in the *Wall Street Journal* and Michigan governor Rick Snyder's report on the financial health of Michigan. See the following:

http://wonkroom.thinkprogress.org/2010/06/07/daniels-public-pay
http://www.minnpost.com/politicalagenda/2010/04/30/17788/gov_pawlenty_public_employees_are_over-benefited_and_overpaid
http://camdengop.com/resources/speeches/christies-nj-conference-of-mayors-address
http://www.politicususa.com/en/Romney-Meet-The-Press
http://online.wsj.com/news/articles/SB10001424052748704132204576190260787805984
http://www.michigan.gov/documents/snyder/2011_Guide_to_MI_Financial_Health_01312011_344193_7.pdf)

[2] Although not cited, the *Star-Ledger* obtained its state government and private sector earnings data from the 2008 annual data collected by the U.S. Department of Labor, reported in the Quarterly Census of Employment and Wages (QCEW) program.

[3] The interest arbitration often takes the form of mediation-arbitration.

[4] "Christie Signs New Jersey Arbitration Reform Legislation." Tuesday, 21 December 2010, http://www.newjerseynewsroom.com/state/christie-signs-new-jersey-arbitration-reform-legislation.

[5] USA Today/Gallup poll. Results are based on telephone interviews conducted March 25–27, 2011, with a random sample of 1,027adults, aged 18+, living in the continental United states, selected using random-digit dial sampling.

[6] Dennis Cauchon, "Wisconsin One of 41 States Where Public Workers Earn More*." USA Today*, March 1, 2011 p. 1A.

[7] Kenneth Jost, "Public Employee Unions: Are the Current Attacks Justified?" *CQ Researcher*, April 8, 2011, p. 319.

[8] NBC News/Wall Street Journal Survey, February 2011. Hart/McInturff Study #11091. Interviews: 1,000 adults, including 200 reached by cell phone.

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