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Union Contracts, Not Pay, Are States' Problem

By DAVID LEONHARDT

When Ed Rendell became the mayor of Philadelphia in 1992, he started a fight with the city's labor unions that will sound familiar to anyone who has been following the recent news from Wisconsin. In his inaugural address, Mr. Rendell, a Democrat, announced, "Philadelphia stands on the brink of total disaster."

He told the city's unions that they needed to accept less generous health benefits, fewer holidays and a pay freeze. The unions promised to strike. Mr. Rendell pointed out, frequently and publicly, that the city offered better benefits than private companies did. The public sided with the mayor, and on most issues, the unions eventually caved.

If you review the recent history of battles between unions and state or local governments, you'll find similar stories. In New York, Rudolph Giuliani won big concessions. In Chicago, Richard Daley did, too. In Wisconsin — setting aside Gov. Scott Walker's attempt to end collective bargaining — unions have already agreed to a significant cut in take-home pay.

It has become conventional wisdom to say that public sector unions are inherently problematic because they can use their political influence to win lavish pay from politicians. But that's not quite right. The real problem with most union contracts for public workers is not the money — it’s almost everything else.

On money alone, many politicians are pretty tough negotiators. They have both the motive and the means. They want to spend their budget on projects that are sexier than government pensions. And, as Mr. Rendell says today, politicians can often win a fight with unions in “the court of public opinion.”

No wonder that academic papers spanning more than 30 years have found that government workers receive compensation that is similar — with somewhat lower salaries and somewhat better benefits on average — to that of private sector workers with similar qualifications. One study went so far as to include workers’ scores on an intelligence test, to ensure the comparison was apples to apples. Over all, government workers are modestly underpaid or overpaid, depending on which technical accounting assumptions are used to value their pensions.

Either way, *modestly* is the crucial word. There is no good case that government pay is a major cause of the budget problems now facing states.

Unfortunately, though, politicians do not have the same incentives to be tough negotiators on issues besides money. Why not? Because most government agencies are monopolies. They face no competition. Whether they perform beautifully or miserably, they cannot be run out of business. They also can’t be run out of business by pushing off costs until a future day. So they delay too many costs and don’t perform their jobs well enough.

The delaying of costs is obvious. Both politicians and union leaders have decided that generous future benefits offer the easiest way to hold down spending and still satisfy workers. The result is government pay that’s skewed too heavily toward pensions and health insurance.

To be clear, I’m making an argument that’s different from “Government workers are overpaid.” I’m saying that they are paid in the wrong ways — in ways that make life easier on union leaders and elected officials, at least initially, but that eventually hurt both workers and taxpayers.

The best example is health insurance. Health plans for union workers and retirees are much more likely to require little or no co-payment, which leads to lots of medical treatments that don't make people any healthier, and to huge costs. Ultimately, some of these plans will probably prove so expensive as to be unsustainable. Workers would have been better off accepting a less generous benefit package and slightly higher salaries.

The solution today is not to cut both the pay and the benefits of public workers, as would happen if workers in Wisconsin, Ohio and elsewhere lost their right to bargain. Remember, public workers don't get especially generous salaries. The solution is to get rid of the deferred benefits that make no sense — the wasteful health plans, the pensions that start at age 55 and still let retirees draw a full salary elsewhere, the definitions of disability that treat herniated discs as incurable.

These changes will help the states' long-run budget problems, but of course they won't address the immediate, recession-induced crisis. Dealing with the crisis will require dealing with the second failure of government: subpar performance.

On Tuesday, an auditor released a report showing that the federal government was wasting tens of billions of dollars on specific programs that accomplished little. Inefficiency is just as big a problem in state and local governments. Yet many public sector unions have been terribly short-sighted on this issue.

They have too often blocked attempts to make government work better. Instead, they have protected their worst-performing members, at the expense of both the taxpayers and the thousands of public workers who do their jobs well. Only recently, for instance, have teachers' unions started to cooperate with serious efforts at teacher evaluation, and they are still not giving their full cooperation.

The tragedy — or maybe it's the good news — is that the government really can become more efficient when it tries. Indiana, under Gov. Mitch Daniels, a Republican, has had some success measuring its results and then improving them. (Mr. Daniels, less admirably, eliminated many state workers' bargaining rights in 2005.) Washington State, under Democratic governors, has had success, too. The Obama administration, meanwhile, has made the federal government more productive in a variety of modest ways.

A more efficient government is one that does not need quite so many employees to do the same work. Layoffs are not always necessary, either. Attrition can reduce a payroll fairly quickly, as has happened in Indiana.

Ideally, the states' current fiscal crisis will end up being the spark that forces government to improve. But even if that happens — for that matter, even if Mr. Walker and some other governors succeed at slashing worker pay — don't expect our budget problems to go away. They're too big.

Fat and happy government workers, however easy the caricature may be, are not the cause of our looming federal and state deficits. Neither are spineless politicians.

The cause is Americans' collective desire for low taxes and generous government benefits. We want our politicians to promise us tax cuts, a strong military, safe streets, good schools and unchanged Medicare and Social Security. And promise it all they do.

Eventually, we will have to pay for the government we want, regardless of what happens in Wisconsin.

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