State Crisis: How Unions Hijacked the Ohio Economy

By LIZ PEEK, The Fiscal Times
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By the time these words are published, voters in the Buckeye state will almost certainly have squashed efforts to rein in the soaring costs of public employees that are crippling their state and cities' finances. Labor unions, terrified at mounting efforts to roll back luscious wage and benefits packages bestowed on workers by near-sighted politicians across the country, have called in the heavy artillery.

At stake are the reform efforts of Governor John Kasich, elected in 2010 and bequeathed an $8 billion budget gap. Like other governors across the country, Kasich took on the public employee unions, demanding limits to collective bargaining, voluntary payment of union dues and greater worker contributions towards pensions and healthcare. Having been battered in New Jersey, Wisconsin and even labor-friendly New York, union Bigs mobilized, eliciting millions in contributions from national unions like the SEIU in New York ($1 million), the AFL-CIO in D.C. ($1.5 million) and the National Education Association in D.C. ($2 million). Spending an estimated $30 million, organized labor is expected to have defeated Governor Kasich's reforms.

This script did not have to written.Near the end of the eighteenth century, agents of the Ohio Company established a new township along the Hockhocking River. They called it Athens, to remind settlers from the young United States of their debt to Greek democracy – an homage unlikely to be repeated any time soon.

Watching the ongoing destruction of the Greek economy, we marvel at the depth of the country's financial chasm, smugly secure that it couldn't happen here. Surely, our citizens would prevent the soaring government spending and impossible promises to public workers that lie at the root of Greece's collapse.
Athens, Ohio, meet Athens, Greece – a cautionary tale.

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example of the same willful disregard for the future.

The union juggernaut is a tragedy -- not yet a tragedy on the scale of Greece – but a scene from the same script. At the heart of the debt problems confronting Greece and other EU countries, and challenging the governments of Ohio and many other states, is the aging of our populations combined with the generous pensions and healthcare packages awarded to public sector workers. Seeking campaign support from unions, politicians for decades have paid to play.

Scrapped for cash to grant pay hikes, municipal and state officials have instead proffered generous benefits packages, confident they would no longer be around when the bills came due. (This near-termism is not confined to the public sector of course; GM is an excellent example of the same willful disregard for the future in the private sector.) Because of the financial crisis, the budget problems of tomorrow for many cities, states and countries became the problems of today.

Michael Lewis, in Boomerang, writes “in just the past twelve years the wage bill of the Greek public sector has doubled, in real terms…the average government job pays almost three times the average private-sector job.” Further, he notes of Greece’s public school system, “one of the lowest-ranked systems in Europe, it nonetheless employs four times as many teachers per pupil as the highest-ranked.”

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More sobering is a report by Jagadeesh Gokhale of the Cato Institute, who concludes that the future obligations faced by the beneficent government of Greece totals 875% of the country’s GDP. That compares with 434% of GDP for the average EU country (few are without challenges here) and approximately 500% for the U.S. Mr. Gokhale also concludes that Greece’s “fiscal imbalance” amounts to 10% of future GDP. That is, the government would have to set aside and invest each year more than one tenth of total output to cover future obligations. The figure for the U.S. is 8.2 percent -- not that far behind.

Greece’s problems seem beyond repair, and certainly beyond the scope of this column. In the U.S., we have the opportunity to reset the nation’s economic course. High on the agenda is out-of-control benefits for public employees. In Ohio, pay to public unions suck up as much as 80% of local budgets. Building a Better Ohio, a business-friendly group advocating for public sector reform, posts on their website examples of the stifling nature of generous payouts.

The citizens of Ross County, where unemployment is 13.8 percent, earn on average $25,000 per year. Notwithstanding the dire local economy, an arbitrator allowed 3 percent pay hikes to “safety forces” employees, whose starting salaries were almost $10,000 higher than the average citizen. They also ruled that the county had to pay the 7 percent pension cost for police members that the workers were meant to cover. As a result, the city of Chillicothe raised income taxes by 25 percent, and two firehouses in the vicinity were shut down.

Higher taxes, of course, are the handmaiden of overly generous labor contracts. As Governor Kasich said in his most recent budget, "We must compete with Indiana as well as India. Both want our jobs and our companies." He's right. According to the Tax Foundation, "The Department of Labor reports that most mass job relocations are from one U.S. state to another, rather than to an overseas location."

Governor Kasich is on the right track. The Tax Foundation, in its annual assessment, ranks Ohio the 46th worst state in the union in terms of tax policies that are important to business. Other states in the bottom ten include California, New York and New Jersey (which is gradually improving its standing). Ohio has one of the nation's highest corporate, individual and property taxes. With other governors pushing through measures to lessen the burdens on their states, Kasich is in danger of being left behind. If his reforms fail, Ohio will see ever-higher taxes and job losses as employers flee to other states.

The ever-growing demands from public employees are a serious threat to our struggling cities and states. The citizens of Athens, Ohio should look to Greece for resolve, if not for inspiration.