StarTribune.com | MINNEAPOLIS - ST. PAUL, MINNESOTA

Jason Lewis: The 'Big' Debate, public servants or public masters?

By JASON LEWIS

May 29, 2010

America, not unlike Minnesota, has reached a tipping point. We are on the precipice of a brave new world where 60 percent of us, according to the Tax Foundation, receive more from government than we pay in taxes. From bailouts to ballparks, subsidies abound.

But maybe the most acute spending problem is the unsustainable growth in government employment and compensation.

A list of the largest Minnesota employers compiled by Twin Cities Business not only shows that state government is at the top with 54,900 employees (far ahead of the Mayo Clinic at 37,718), but among the top 20 employers, federal, state, and municipal government accounts for a third of the workforce. And that doesn't include Minnesota's sizable health care footprint, much of it nonprofit and reliant on a myriad of health care consumer subsides.

Government is a growth industry, but it is devouring the private sector's ability to pay for it. While business has been shedding jobs and freezing pay, Washington has been on a hiring binge and granting raises to boot. Federal employment totals well over 2 million people (almost 10 times Detroit's Big Three auto companies) and costs the taxpayer $125 billion annually. Moreover, executive branch and civilian employment (nonmilitary) is growing by double digits, according to the Obama administration's own 2010 budget blueprint.

The rich get richer -- but now they're in government. A USA Today analysis shows the number of federal employees making $100,000 a year has jumped to nearly 20 percent of civil servants. The average federal salary is in excess of $70,000 -- not counting the value of generous government benefits -- benefits that are taking a massive toll on government finances at all levels. The Cato Institute reports that wages and benefits of $1.1 trillion "accounted for half of total state and local government spending" in 2008.

And for what? So public employees can retire in their early 50s with the bulk of their highest salary for life?

Figures from the Bureau of Labor Statistics show that state and local compensation -- including paid leave, health care and pensions -- totals $39.66 per hour worked, 45 percent higher than the private sector figure. Retirement benefits are so out of line that official estimates of state and local pension plans around the country indicate they are underfunded by about $1 trillion. Eliminating wishful assumptions (Minnesota, for instance, assumes an unrealistic 8.5 percent return on its fund balances) could put the future taxpayer liability at three times that amount.

A study commissioned by Gov. Arnold Schwarzenegger reveals that California alone has an unfunded public retirement liability of $500 billion with pension costs increasing 2,000 percent over the last decade. In New Jersey, Gov. Chris Christie reports that a unionized teacher who contributes $62,000 for pension costs will collect more than $1.6 million in health and retirement benefits. Nationwide, teacher pensions are so woefully underfunded that the Manhattan Institute's Josh Barro estimates a shortfall approaching $933 billion.

Minnesota's Teachers Retirement Association is only 59 percent funded, but that hasn't stopped Education Minnesota, the 70,000 member state teachers union, from resisting any meaningful reductions in benefits. The union, of course, backed legislation to increase school district contributions toward shoring up fund balances. And as usual it got most of what it was looking for.

The pension bill signed by Gov. Tim Pawlenty as a bargaining chip to close this year's general fund deficit putatively "saves" $2.1 billion, but only by hiking contributions from employees and employers (i.e., taxpayers) and asking for a slowdown in benefit increases, not pension reform (though it did authorize a plan to "study" it). Days earlier, the governor's spokesman said the bill "lacks significant reform, continues to provide for future increases, mandates additional costs to local governments and makes the structural budget worse by tens of millions of dollars."

The fact is that ever since John F. Kennedy signed an executive order allowing federal employees to unionize, America's 22.5 million "public servants" have become masters of their own political universe. The American Federation of State, County, and Municipal Employees (AFSCME) has been the second-largest contributor to campaigns nationwide over the last two decades, and the most frequent visitor to the Obama White House during the first six months of 2009 was none other than Andy Stern, the former head of the Service Employees International Union (SEIU).

Almost 40 percent of state and local workers now belong to a union, whereas that figure is just 7 percent in the private sector. And they like to flex their political muscle. Chris Edwards of Cato points to the $165 million that public sector unions spent on campaigns and ballot measures just during 2007 and 2008 -- usually to protect their own benefits.

AFSCME Council 5, with 43,000 members in Minnesota, has even taken upon itself to fund a campaign for a big tax increase. You don't suppose that would have anything to do with plugging the state's total public pension shortfall of $12 billion by increasing state aid, do you? AFSCME's "tax the richest" ads, however, woefully miss the mark considering that the top 1, 5, and 10 percent of earners in Minnesota are actually paying more as a percent of income taxes collected than they did just a few years ago. Even when you include all state and local taxes, the top 5 percent of earners pay 28 percent of the total, according to the Department of Revenue's latest tax incidence study.

Not that AFSCME is being unreasonable when it comes to reorganizing the state employment structure. It simply demands that state government guarantee "every worker will have a job with equal or greater pay and benefits after reorganization." Well, nice work if you can get it.

Government services are legal monopolies, which means the taxpayer has little recourse but to pay for unwise collective bargaining. So when the public unions buy off the politicians, the game is up. But is there not a conflict of interest here? After all, representative government presupposes that our elected officials serve their constituents, not the government's.

Were it not for the raw political power of the public employee unions, everyone would acknowledge what has to be done. Raise the retirement age, change public pensions to "defined contribution" plans for new hires, and freeze pay for current workers until the recession is over. In other words, exactly what the private sector has done.

minnesota voices

jason lewis An occasional series by Minnesota authors • • • Lewis is a nationally syndicated talk show host heard locally on KTLK (100.3 FM) 5-8 p.m. weekdays.

TO OUR READERS

Katherine Kersten has the week off from her column.