George Rebane: E Pluribus Union

The case has been made that public sector unions (PSUs) are bankrupting governments across the land. Moreover, they are a “bad deal for taxpayers and representative government.”

Failure to cure the current recession has focused many organizations, mostly on the right, to re-examine the history and data from the last several decades of PSU growth to confirm such conclusions.

Problems compound when PSUs are given monopoly power to supply government workers at any level, from federal down to counties and cities.

Representative government is often compromised: “Elected officials undermine their duty to taxpayers ... this puts unions in a privileged position to extract political goods in the form of high pay and benefits that are much higher than anything comparable in the private sector.”

To contend such conclusions one must explain away the widely available research on comparable pay. The Bureau of Labor Statistics says that, over time, public sector versus comparable private sector average salaries have climbed into the range of 1.5 times to 2 times. And the private sector cannot touch the pension and added health care benefits of the government workers' total compensation package.

Salaries and benefits are the largest component of government budgets. And when a public sector union is involved, the employee compensation negotiations disappear from taxpayer view. This blackout is required by laws carefully put in place by PSU supported politicians.

In the aftermath of their successes, the PSUs are not bashful about their involvement. Recently, the Service Employees International Union bragged that it had spent more than $50 million to elect President Obama, $27 million of which came out of its PAC, and it expected great things in return.

In general, PSU negotiations involve five groups — PSU members, PSU leadership, government staff managers, the electeds and the taxpayer. Actually, the taxpayer is only affected, and the case is made that during such negotiations the taxpayer is severely underrepresented. The electeds and management feel a strong need to provide the public continuity of visible services and expected benefits. Any disruption here, and the public will usually be quick to blame their elected leadership.

This dynamic gives public officials a strong incentive to give the unions what they want.

The bottom line is that PSUs do not share private sector unions' concerns in shutting down their employer. A jurisdiction like a county government cannot be shut down. Moreover, such negotiations highlight the effect of “information asymmetry” between the electeds, management, and PSU.

Since the government's books are always open and the PSU knows in detail how things work (or can be made to stop working), the taxpayer side of the equation is at a great disadvantage.

The easiest path during normal times is to always do what is necessary to keep

the peace — aka the PSU wins. The resulting benefits are immediate and visible, while the costs can be fuzzified out into an indefinite future.

Through these and more complex effects, such as political activism and policy interventions, the negotiations between government and PSU leaders result in an “institutional dysfunction that makes public-sector unionism very costly.”

Political scientists and economists call it the "principal-agency problem." This is the disconnect between the objectives of the owners (taxpayers) and the controllers (electeds and managers) of an organization (government jurisdiction).

Having said all this, we understand why PSUs are always in favor of growing government at all cost to the taxpayers. And the resulting numbers — employee count, budgets, PSU membership, compensation packages — are the proof of this pudding, or should I say, sausage factory?

In California, the first dead canary is Vallejo, forced into Chapter 9 bankruptcy last year by the PSU representing its public safety employees.

For more on this and the overall PSU problem that threatens insolvency of most governments across the land, please Google this Cato Institute report — "Vallejo Con Dios."

Finally, I had a chance to chat with several Nevada County leaders for some background on local PSU impact. Out of 906 county employees, 808 of them are represented by seven PSUs. Most work under longer term contracts (five years) and negotiate directly with county management who receive policy guidance/constraints from the Board of Supervisors.

Given the current recession, I was told that our county has a good opportunity to contain costs through the next round of negotiations now getting underway. We still have a prudent reserve of approximately $19 million, and have successfully reduced staff over the last few years. Our only visible fiscal conundrum is a multi-year accrual of some $80 million in unfunded pension liabilities that now has the full attention of the county's leadership.

George Rebane is a retired systems scientist and entrepreneur in Nevada County who regularly expands these and other themes on Rebane's Ruminations (www.georgerebane.com).

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