

WISCONSIN'S PUBLIC EMPLOYEES

A FOUNDATION FOR QUALITY OF LIFE IN THE STATE

May 2011

Across the nation, the fiscal fallout from the Great Recession has made this budget among the worst on record for state governments. And across the nation, but perhaps especially in Wisconsin, public workers have been caught in the crosshairs. Calling public workers the “haves” and taxpayers the “have-nots,” Governor Scott Walker has structured and pursued an aggressive campaign against the compensation and rights of the state’s teachers, snowplow drivers, and other public employees.

Implied by this agenda is the conservative tenet that the Wisconsin budget deficit can be explained by the bloated and unchecked growth of the wages and benefits of public-sector workers. A careful examination of the facts on Wisconsin’s budget shows that this explanation is false.

Wisconsin’s budget shortfall has very little to do with its compensation of the public-sector workforce. Rather, the budget gap has everything to do with declining revenue. The Great Recession, which cost the state some 200,000 jobs, hammered revenues, with sales and income taxes coming into the state falling dramatically. The decline in revenue left the state with a significant budget shortfall.

Public-sector workers did not cause this recession, but they have been targeted to shoulder its price.

In this brief we offer data on public-sector workers – their pay relative to the private-sector workforce, the size of Wisconsin’s public workforce over time, and analysis of what the wage reductions in the budget will cost different public workers – and data on the most important cause of the state’s budget deficit: declining revenue due to the Great Recession.

PUBLIC-SECTOR WORKERS: OVERPAID? NO.

While public workers are often painted as the “haves,” and presumed to be overpaid, rigorous research demonstrates that public workers in Wisconsin are actually undercompensated, even taking benefits into account. The bottom line is that, on net, public-sector workers bring in about five percent less in total compensation than similar private-sector workers do. This detailed analysis was done by EPI (www.epi.org/publications/entry/6759) and summarized by COWS (www.cows.org/pdf/bp-WIpublicsectorcompensation.pdf).

Figure 1 on the next page shows that the more education workers have, the greater the wage disadvantage of working in the public sector. At the lowest level of education (less than high school), public-sector workers are actually compensated slightly better than private-sector workers on average. For workers with a high school degree, private-sector compensation just slightly exceeds the public sector. Further up the education scale, the public-sector compensation penalty grows. As the public-sector workforce is dominated by workers with college and graduate degrees, the net result is that public-sector workers experience a total compensation disadvantage.

FROM “UNIONS AREN’T TO BLAME FOR WISCONSIN’S BUDGET”

Ezra Klein, Washington Post

Let’s be clear: Whatever fiscal problems Wisconsin is – or is not – facing at the moment, they’re not caused by labor unions. That’s also true for New Jersey, for Ohio, and for the other states. There was no sharp rise in collective bargaining in 2006 and 2007, no major reforms of the country’s labor laws, no dramatic change in how unions organize. And yet, state budgets collapsed. Revenues plummeted. Taxes had to go up, and spending had to go down, all across the country.

Blame the banks. Blame global capital flows. Blame lax regulation of Wall Street. Blame home buyers, or home sellers. But don’t blame the unions. Not for this recession.

www.voices.washingtonpost.com/ezra-klein/2011/02/unions-arent-to-blame-for-wisc.html

ABOUT COWS

The Center on Wisconsin Strategy (COWS) is a nonprofit, nonpartisan “think-and-do tank” dedicated to improving economic performance and living standards in the state of Wisconsin and nationally. Based at the University of Wisconsin-Madison, COWS works to promote “high road” strategies that support living wages, environmental sustainability, strong communities, and public accountability.

For more information, visit www.cows.org.

C O W S
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Overall public-sector workers are not overpaid. But it is worth remembering that public-sector jobs help workers at the bottom of the labor market, providing some of the few remaining low-wage jobs with decent benefit packages.

THE PUBLIC SECTOR: A BLOATED WORKFORCE IN WISCONSIN? NO.

There is also a dominant impression that the public sector in Wisconsin is too big and inefficient. In fact, the data shows that Wisconsin has fewer public workers per capita than many other states. And the size of our public-sector workforce – including both local and state public workers – has shrunk over the last five years, not grown.

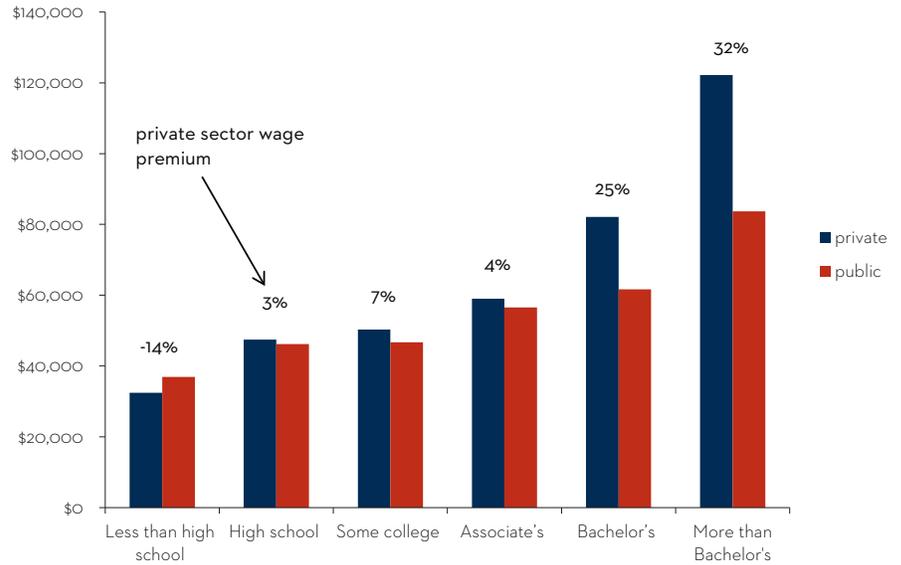
Some 383,000 Wisconsin workers hold full- or part-time jobs in Wisconsin's public sector, working as teachers, EMTs, nurses, garbage collectors, librarians and maintaining our buildings and public spaces (Table 1). Their work accounts for the equivalent of 285,000 full-time jobs in the Wisconsin economy. Three-of-four public-sector workers are employed by local units of government – cities, counties, school districts, technical colleges – while one-in-four works for the state of Wisconsin. These public workers provide the education, public safety, and other public infrastructure that is a foundation for quality of life in the state.

Education accounts for more than half of the state's public-sector workforce, employing the full-time equivalent of 164,000 Wisconsin workers. More than 70 percent of those workers (117,000) are employed in the K-12 system, with the remainder (45,000) employed in higher education.

The Wisconsin public-sector workforce is not bloated; comparison with other states and the region suggests that Wisconsin

Figure 1

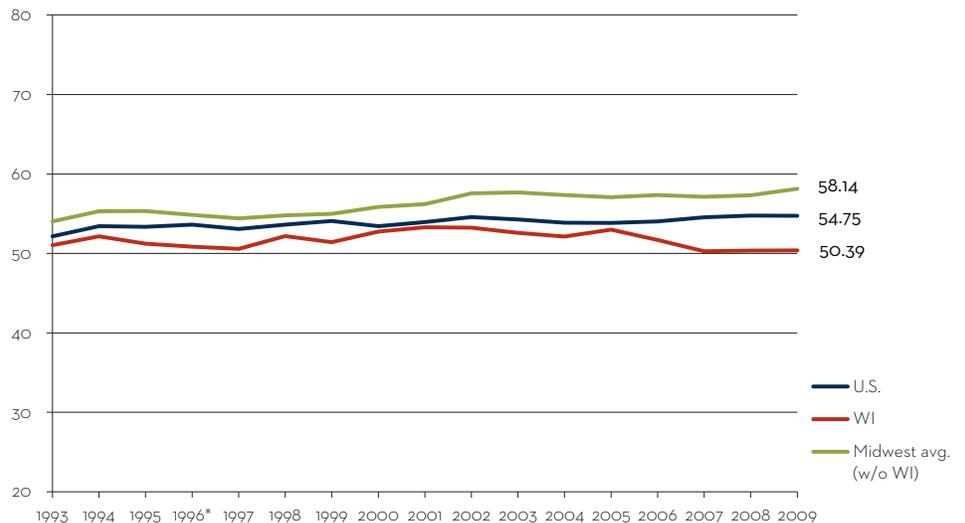
TOTAL COMPENSATION BY EDUCATION LEVEL IN PUBLIC AND PRIVATE SECTORS



Source: Keefe/EPI (2011) – www.epi.org/publications/entry/6759

Figure 2

PUBLIC (STATE AND LOCAL) EMPLOYEES PER THOUSAND RESIDENTS UNITED STATES, WISCONSIN, AND MIDWEST AVERAGE, 1993-2009



Source: Census Bureau, Government Employment and Payroll survey; Census Bureau, Population estimations. * FTE employment data for 1996 is not available. Figures here are obtained by interpolating between 1995 and 1997 data points. Population data is the actual data provided by the Census Bureau.

in fact has a relatively low and stable level of public employment for its population. Wisconsin has 50 workers for each 1,000 state residents, a level of public-sector employment that is nearly 10 percent below the national average of 55 workers per 1,000 residents. Compared to other states in the Midwest, which average 58 workers per 1,000 residents, Wisconsin's public workforce appears even leaner. Further, the ratio of workers to population has held steady for nearly 20 years and has actually fallen slightly in recent years. These data clearly undermine the idea that Wisconsin's public-sector workforce is either bloated or growing at an uncontrollable rate.

Table 1

PUBLIC-SECTOR EMPLOYEES IN WISCONSIN

| | <i>Number of Workers</i> | <i>As Percent of Total Employees</i> | <i>Per 1000 State Residents</i> |
|--|------------------------------|--|-------------------------------------|
| Full-Time Equivalent Public Workers | 284,963 | 100.0% | 50.39 |
| State Government Employees | 70,457 | 24.7 | 12.46 |
| Local Government Employees | 214,506 | 75.3 | 37.93 |
| Actual Full-Time Employees | 238,534 | 62.3 | 42.18 |
| Actual Part-Time Employees | 144,247 | 37.7 | 25.51 |
| Work in Education (Elementary, secondary, and higher education combined) | 164,128 | 57.6 | 29.02 |
| In Elementary or Secondary Schools | 117,316 | 41.2 | 20.75 |
| Higher Education | 45,726 | 16.0 | 8.09 |
| Police / Fire Departments | 20,672 | 7.3 | 3.66 |
| Legal Corrections | 14,734 | 5.2 | 2.61 |
| Public Welfare | 14,573 | 5.1 | 2.58 |
| Health and Hospitals | 12,699 | 4.5 | 2.25 |
| Financial and Other Govt. Administration | 13,021 | 4.6 | 2.30 |
| Judicial and Legal | 5,806 | 2.0 | 1.03 |
| Highways | 10,634 | 3.7 | 1.88 |
| Other | 28,696 | 10.1 | 5.07 |

Source: Census Bureau – "Government Employment & Payroll" www.census.gov/govs/apes.

PUBLIC WORKERS AND THE WAGE AND BENEFIT CONCESSIONS: THE LESS YOU EARN, THE MORE YOU LOSE.

Over the next two years, Governor Walker's proposed changes to public-worker compensation will take at least \$1 billion dollars out of the pockets of the 383,000 public-sector workers employed in the state. Accounting for some 14 percent of jobs, and employed throughout the state – remember, three-fourths of public workers work for local units of government – the proposed compensation changes will be hard on public employees and their communities. Public workers account for 14 percent of the state's total workforce. Reducing the wages of these workers by an average of about 8 percent drains a significant amount of expenditures out of local economies. The Institute for Wisconsin's Future estimates that the wage hit of public employees will result in the loss of about 10,000 jobs and \$900 million in the state economy as public workers pull back on spending – eating out and going out less often, deferring purchases, and otherwise responding to their decline in wages. When this many workers take such a significant wage cut, the businesses in their communities will feel the decline as well.

The state budget is being balanced on the shoulders of the state's teachers, parole officers, nurses, and public-sector janitors even as tax breaks have been given to corporations and the rich.¹

Further, the structure of the proposal means that lower-wage workers will experience a much more significant reduction in pay than higher-wage workers. Table 2 provides data on the effect of the health care and pension changes on three different workers' take home pay. As the table shows, the compensation changes first proposed in Governor Walker's Budget Repair Bill will tend to affect lower-wage workers more adversely than better-paid workers. For instance, the custodian will have nearly one third of her salary cut from the first month's paycheck. The public school teacher, whose annual income is just below \$40,000, will see about a 14 percent cut in her annual pay. Finally, the full-time university professor, who has a relatively high salary in the state, will see about a 7 percent cut in salary.

Table 2

EFFECTS OF THE BUDGET REPAIR BILL ON INCOME, THREE PUBLIC WORKERS IN WISCONSIN

| | <i>Custodian, Full Time</i> | <i>Teacher, Full Time (five years experience)</i> | <i>Professor, Full Time</i> |
|---|-----------------------------|---|-----------------------------|
| Annual Salary | \$11.83/hour | \$39,732 | \$75,885 |
| Monthly Gross Salary | \$919 (bi-weekly) | \$3,433 | \$8,432 |
| Current Health Insurance Deduction | \$78 | \$0* | \$89 |
| Health Insurance Deduction Under Budget Repair Bill | \$208 | \$145* | \$208 |
| Current WRS Contribution | \$2 | \$0* | \$17 |
| WRS Contribution Under Budget Repair Bill | \$53 | \$192 | \$489 |
| All Other Deductions | \$223 | \$972 | \$182 |
| Current Take Home Salary | \$616 | \$2,461 | \$8,144 |
| Take Home Salary Under Budget Repair Bill | \$453 | \$2,124 | \$7,553 |
| Monthly Difference | \$181 | \$337 | \$591 |
| Percent Difference | 29.3% (in first paycheck) | 13.7% | 7.2% |

Source: Self-reported data from three individuals.

*Amounts are subject to collective bargaining agreements.

¹ WI Assembly Bills 3, 4, and 7 alone give nearly \$70 million in income and corporate tax breaks annually for companies that relocate to Wisconsin.

Source: WI Legislative Fiscal Bureau – legis.wisconsin.gov/lfb/2011-13/Bills/Cumulative.htm.

PUBLIC-SECTOR WORKERS: THE SOURCE OF WISCONSIN'S BUDGET DEFICIT? NO.

State budget balances are the product both of expenditures and revenues. To get a sense of public-worker compensation and its effect on budgets, then, we need to look at trends over time in both expenditures and revenues.

First, on the expenditure side, we consider Wisconsin public workers' share of the total state budget over the last three decades. Over the entire period from 1977-2008, the share of wages and salaries in total expenditure actually fell: from an initial 17 percent in 1977 to 14 percent in 2008. At the same time, the share of pension expenditures rose from an initial 2.5 percent to 12 percent of total expenditures. All wage, salary, and pension payments to state employees now account for 25 percent of total state expenditures.

The reason that the share of expenditure devoted to pension has grown is that Wisconsin has one of the most responsible pension systems in the nation. The Wisconsin Retirement System (WRS), shares risk with pensioners by reducing payouts when investment returns fall and paying a dividend when investments boom. In this way, the WRS is effectively 100 percent financed out of assets and has maintained this status throughout the recession even as other state pension funds struggled. For more on the WRS, see COWS' publication *The Wisconsin Retirement System is One of the Healthiest in the Country*.

But in Wisconsin (and across the nation), the real action in the budget picture is the decline in revenue. Quite simply, state revenues fall when the economy goes into recession. The black line on Figure 3 (next page) shows revenues over the last three decades and the decline in revenues associated with recessions is clear. When the revenue line is above the expenditure, the state runs a surplus, and for most of the last thirty years, Wisconsin operated a budget surplus. Note that most of the growth in expenditures occurred during the late 1990s, years of national economic boom and large state surpluses. On the other hand, since 2003 Wisconsin's total expenditures have grown less than 1 percent.

After the 2001 recession, state revenues fell dramatically but were subsequently recovered while total state expenditures stabilized. The recession that began in 2007 was much deeper than that of 2001, in terms of both length and depth of economic and jobs indicators, and the 2008 revenue shortfall is clearly visible in the figure.

In all, Figure 3 clearly shows that Wisconsin's current budget deficit originates in the loss of state revenues resulting from the economic recession, not by out-of-control increases in state spending on public workers. Indeed, the Wisconsin Budget Project has calculated that without the decline in revenues associated with the recession, there would be no current budget shortfall.

For Additional Information on Wisconsin's Budget

INSTITUTE FOR WISCONSIN'S FUTURE

Cuts to public employees would punish Wisconsin's economy.

www.wisconsinfuture.org/publications_pdfs/IWF_public_employee_cuts.pdf

WISCONSIN BUDGET PROJECT

Decrease in Tax Revenue Contributed to State Fiscal Difficulties

www.wisconsinbudgetproject.org/tax_revenue_decrease_fiscal_difficulties.pdf

CENTER ON WISCONSIN STRATEGY

The Wisconsin Retirement System Is One of the Healthiest in the Country

www.cows.org/pdf/bp-wrs.pdf

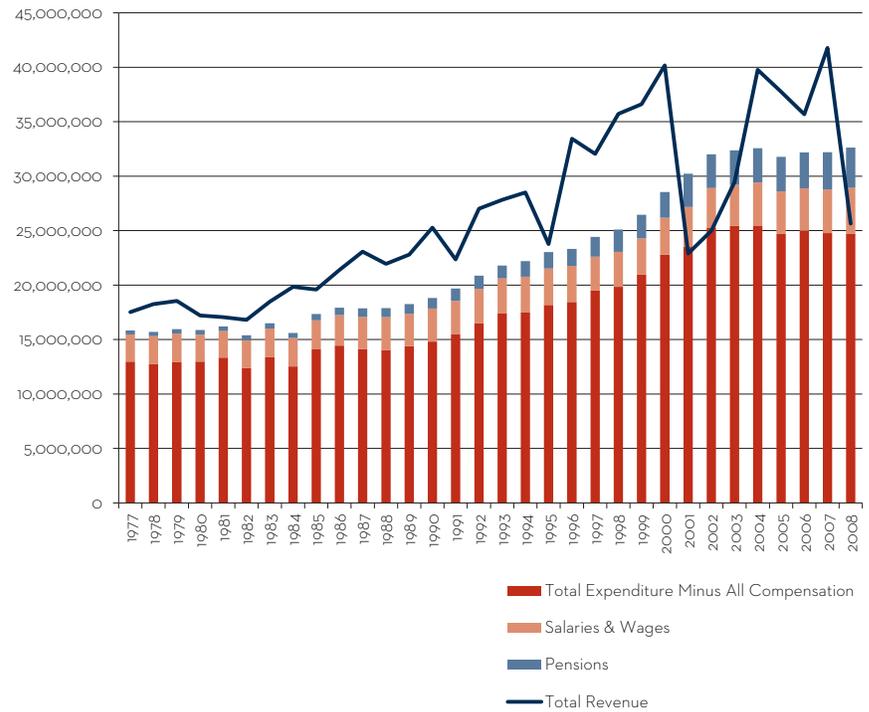
State revenues collapse in recessions. This recession, the fault of a housing bubble caused by irresponsible behavior on Wall Street, generated for Wisconsin a significant budget deficit. The public employees and their unions are now being forced to pay for the downturn.

MOVING FORWARD FOR A BETTER WISCONSIN

The state of Wisconsin has a strong reputation for the quality of public services it provides. That reputation was upheld by the state's teachers, librarians, street cleaners, parole officers, EMTs, fire fighters, social service workers, building inspectors, and many others on whom we all rely. These workers have been unfairly portrayed and targeted by recent legislation that will directly reduce their take-home pay, and eviscerate their collective bargaining rights. This is not the path to economic development for the state. In fact, this path undermines the many unique strengths – most notably, perhaps, our strong commitment to education – which have long provided the foundation for economic development in the state.

Wisconsin can and should do better. We should start by honoring rather than vilifying our public employees. And by working to build a balanced solution to Wisconsin's budget shortfall.

Figure 3
WISCONSIN STATE REVENUE AND EXPENDITURES



Source: COWS analysis of Tax Policy Center/Census of Gov data.