



Free Buffalo
Policy Report No. 2

How to Convert a Deficit into a Tax Cut and “Pay Raise” for 440,000 Workers

Free Buffalo’s Plan

By James Ostrowski

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Executive Summary

Buffalo Niagara's economy is in serious trouble because of high taxes. Personnel costs are a major component of government spending. Thus, to cut taxes, we must cut payroll. In this area, public employee compensation is substantially higher than private sector compensation and public sector compensation in other states.

To redress this disparity and at the same time allow for tax cuts that will help revive the local economy, we propose a twenty percent, across-the-board reduction in public sector compensation.

This proposal, combined with other budget cuts recently proposed by the Buffalo Niagara Partnership and Free Buffalo, will allow Erie County to balance its budget and even cut taxes. Niagara County could also measurably cut its taxes.

In a broader sense, this proposal, if adopted by all municipalities in Buffalo Niagara and applied to tax cuts, will amount to the equivalent of a permanent pay raise for over 400,000 private sector workers in this area.

Ultimately, this reform will inure to the benefit of *all* workers, public and private, and will be a bold first step to restoring the competitiveness of our local economy.

Introduction

The purpose of *Free Buffalo* is to free Buffalo from big government, political machines and special interests, because 45 straight years of economic and cultural decline are enough!

To achieve this goal, three tasks must be accomplished:

1. change this region's political mindset;
2. develop specific proposals for real change; and,
3. install officials willing to support those proposals.

Since Free Buffalo is non-partisan, we will play no direct role in elections. Rather, our role is limited to the first two tasks without which merely replacing elected officials with fresh faces becomes a meaningless exercise.

One of the ways we intend to accomplish these tasks is to say things that need to be said, that either haven't been said before, or haven't been said often enough, publicly enough or persuasively enough to have made an impact.

We intend to say the things that need to be said regardless of how unpopular that makes us in certain circles. *We are not trying to win a popularity contest; we are trying to save Greater Buffalo.* We view our role as akin to that of a doctor who must tell a patient that he has a serious illness, albeit one that can be overcome with long and painful treatment.

One of the painful truths that needs to be stated is that public employees in this area make too much money and receive too many benefits compared with private sector workers.

This is not a personal criticism of those workers nor is it a personal evaluation of their performance. Rather, it is merely a statement of the current economic reality in Western New York. *Excessive government payrolls are killing our economy.* We can't afford them anymore.

Unless this truth is understood, accepted *and acted upon*, we will have no hope whatsoever of ending our 45-year slide¹ toward economic and cultural oblivion.

This report will propose a substantial reduction in public sector compensation, which will allow for a balanced county budget and tax cuts that will, in effect, provide Erie and Niagara County's 440,000 private sector workers with the equivalent of an

¹ In *Political Class Dismissed*, (Cazenovia Books, 2004), I argued that the decline in Buffalo's economy began around 1960 (pp. 48-53).

average pay increase of over \$1,000. It should also allow for Niagara County to cut taxes by several million dollars.²

Follow the Money

One of Free Buffalo's mottos is "Follow the money." The Erie County tax revolt has spent inordinate energies focusing on issues that simply do not touch the core fiscal problems of local government. These include our old friends "pork and patronage," office furniture and cosmetic surgery. Free Buffalo, in contrast, will focus on *where the money really is*: public payrolls, pensions and Medicaid. We will shortly release our third policy report on state pensions and finally a fourth report on Medicaid.

A Tale of Two Cities

The plight of wage-earners in Western New York is a tale of two cities. If you work in the public sector or are a member of a private sector union, you probably earn a decent wage. If you do not, except for a relatively small number of high-income workers in larger corporations, you are most likely struggling around the fringes of economic survival. Yet, the private sector worker, directly or indirectly, pays for the higher wages of their public sector brethren. This unsustainable wage disparity is a major cause of Buffalo's economic decline. It is also a rank injustice for which there is no economic justification. It is an injustice that threatens to separate workers into two classes fighting one another when we should all be united in our efforts to revive Greater Buffalo's depressed economy.

Guiding Principles

There should be a correlation, albeit difficult to define, between public and private sector wages. Public sector wages should rise only when private sector wages, the ultimate source for the payment of public sector salaries, have risen. *If this principle was adopted, the political activism of public sector workers would tend to shift from efforts to increase their own wages and benefits, to efforts to strengthen the overall economy.* This would truly be a revolutionary development if the legal mechanisms to enforce it could be formulated and enforced.

Public sector wages should in some sense be commensurate with private sector wages given *all* the relative benefits, risks, costs involved. All things being equal, wages and benefits in the public sector should be *less* than those in the private sector. The reason for this is the vast difference in job security between the two sectors. Experience shows that public employees are far more secure in their employment than those in the private sector. As a general rule, private sector workers can be fired at will and face the continual uncertainties of the marketplace. They may be fired or laid off at any time due to circumstances beyond their control.

² Niagara County's budget is about \$262 million but its personnel cost was not readily available.

Anecdotal Evidence

There is a general impression among taxpayers that many public employees are paid excessive salaries and benefits compared to what they might earn in the private sector. One of Free Buffalo's co-founders got involved precisely because she had seen a survey of salaries in North Tonawanda that struck her as excessive. The survey listed fifty salaries ranging from \$63,000 to \$135,000, not including generous benefits. Such largesse is galling to many people in an area where thousands are unemployed or underemployed, or work hard for marginal compensation and few or no benefits.

The extreme bitterness that characterizes Greater Buffalo politics—our version of the politics of personal destruction—may be traceable to the fact that the various operatives for the various political machines realize that if they lose an election, they face the unpleasant prospect of trying to match their inflated compensation in the shrinking private sector. If they have to destroy a political opponent by “opposition research” or leave threatening notes on cars to avoid that grim prospect, so be it. If they need to spread false and malicious rumors, well, “politics ain't beanbag.”

The Numbers

According to the Bureau of Labor Statistics (BLS),³ average hourly *earnings* in the private sector in Buffalo—Niagara Falls in the most current survey—July 2004—were \$17.73. The figure for state and local government workers was \$24.03. There is no figure for *benefits* localized to this area, however, in the Northeast, benefits were 29.6 percent of total *compensation*.⁴ That figure, applied to our area, yields average benefits of \$7.45 and a total hourly private sector compensation figure of \$25.18.

Nationally, benefits for state and local government employees were 31.7 percent of compensation.⁵ Applied to this area, that would yield benefits of \$11.13 and total compensation of \$35.16. Thus, private sector compensation is only 71.6 percent of public sector compensation. A pay cut of about 28 percent for government workers would equalize compensation between the two sectors of the economy.⁶

³ Buffalo-Niagara Falls, NY, National Compensation Survey, July 2004 (March 2005, Bulletin 3125-46.

⁴ Employer Costs for Employee Compensation—March 2005 (Bureau of Labor Statistics), p. 14.

⁵ *Id.* at 8.

⁶ The Citizen's Budget Commission found that local government workers in New York State were paid 25 percent more than the national average. See page nine: http://www.cbcny.org/CBC_Pal_Web.pdf

Figure No. 1

**Public-Private Sector Compensation Gap
Buffalo-Niagara (all figures hourly)**

| | <i>Private Sector</i> | <i>Public Sector</i> |
|---------------------|-----------------------|----------------------|
| <i>Wages</i> | \$17.73 | \$24.03 |
| <i>Benefits</i> | \$7.45 | \$11.13 |
| <i>Compensation</i> | \$25.18 | \$35.16 |

These statistics may actually understate the disparity between the public and private sectors. First, federal employees, who are generally well-paid, are not counted. Second, low paid, gray market private sector workers, otherwise known as working “under the table” are unlikely to show up on statistics gathered by the federal Department of Labor in cooperation with employers who are violating state and federal labor and tax laws. Further, it is reasonable to believe that these surveys are biased in favor of larger companies which have staff available to provide information to the surveyors and against small firms which lack such staff and tend to pay lower wages as well.

Are there biases in the numbers in favor of the public sector? The BLS suggests as much, stating that government workers are more likely to be professional or administrative and thus higher-paid.⁷ However, when we look at comparable occupations such as teachers, we see a major gap in compensation as well. Private sector college professors earn only 84 percent of what public sector professors make.⁸ The gap is even larger for elementary and secondary school teachers.⁹

Compensation aside, various non-monetary factors also make public employment more desirable. On average, public employees are more secure in their jobs. Public employees benefit from civil service laws or from union representation to a much greater extent than private workers. Public employees ultimately rely on the ever-present taxing power while private workers employment usually depends on the vagaries of the market, even the world market.

⁷ A. Schwenk, “Compensation Cost Trends in Private Industry and State and Local Governments,”

<http://www.bls.gov/opub/cwc/archive/fall1999art2.pdf>

⁸ National Compensation Survey, *supra* at 3.

⁹ *Id.*

Even the subjective factors that disadvantage public sector workers do not argue against a needed readjustment between private and public sector compensation. The bureaucratic nature of public employment has consequences for the workers. Lacking an objective test of performance—profit and loss—public managers have more discretion in making decisions concerning their subordinates. Political, personal, and subjective factors can creep into management precisely because it is difficult to rein in managers who make decisions based on such factors.

The bottom line is that public sector workers are frequently frustrated in their jobs or feel they are being treated unfairly. They may feel correctly that political and personal relationships with higher-ups are rewarded, but hard work and diligence are not. There are no doubt many government employees who dislike their jobs yet feel trapped because the few opportunities in the private sector would involve a large pay cut and a drastic change of lifestyle. The point is, if we could revive the private economy in this area and increase its compensation relative to the public sector, public employees who wish to explore new careers opportunities would not feel trapped as many do now.

The correlation between high taxes and high personnel costs

We can confirm our conclusion by looking at the problem from an entirely different perspective. New York and Erie County have higher taxes compared to other areas of the United States.¹⁰ New York's state and local taxes combined are about 26 percent higher than the national average.¹¹ Most state and local expenditures are for personnel or transfer payments such as Medicaid. If our taxes are higher, it is presumably because our expenditures are higher. There is in fact a rough correlation between the public-sector/private sector wage and benefit differential and the New York State/other states tax differential. In any event, *there is no way New York can close the tax gap without slashing personnel costs.*

Should there be a wage gap?

Wages in the private sector are determined by supply and demand, competition, contract and choice. Wages in the public sector are determined largely by the political power of the employees who are often organized in unions and/or political organizations. The law of supply and demand only dimly operates where taxpayers, in contrast to private employers paying wages, have no choice but to pay the taxes out of which public sector salaries are paid. It is not consumer demand, but the taxman's demand, that determines public employee compensation.

Public sector wages will be driven up in accordance with the political power of the employees. The main limitation on them is the health of the economy which will

¹⁰ See, "Fixing New York State's Fiscal Practices, Citizens Budget Commission (2003); <http://www.cbcny.org/fixingnys.pdf>

¹¹ Id.

ultimately place a limit on the size of public employee compensation. As a result of the continual decline in the economy in this area for many years, we have now reached the point at which a poorly-performing economy makes further increases in public employee wages foolhardy. In fact, a *contraction of wages* must occur in order for the economy to rebound and remain competitive in the national and international marketplaces.

Because of the gradual decline of the economy and increasing strength of the political forces calling for ever greater increases in public sector salaries and benefits, there is now a gross disparity between public and private sector compensation in this area. This must end.

Why? First, because there is no cogent economic rationale for such a disparity. Second, because the servants of the people should not make more money than the people themselves. Third, because an equalization of salaries is essential to a restoration of the health of the economy. Finally, because tying together private and public sector salaries will change the way government operates. An all-too-common attitude of arrogance or indifference to the plight of private workers and private business will likely change to one of concern and solicitude. Once public sector salaries are directly tied to the health of the overall economy, those who make and carry out public policies will have a strong incentive to educate themselves about those factors that produce economic growth, namely low taxes and the elimination of arbitrary and unnecessary regulations and bureaucracy.

Adoption of these principles will alter the primary political dynamic in this area: class warfare between *net taxpayers* and *net tax consumers*.¹² The enmity that has arisen between these classes because of the disparity in wages and working conditions will greatly lessen. We can then move forward as one economic community fighting to restore our former economic greatness as we must in the new era of global competition with emerging giants such as China and India. To paraphrase the old joke, if we don't get our acts together around here, we'll all be speaking Chinese or Indian very soon.

A Necessary Adjustment

Whether we look at the gap between private sector and public sector wages here, or the gap between local taxes here and elsewhere, we find a difference of twenty percent or higher. The solution is obvious: *we need an across-the-board public compensation reduction of at least twenty percent*. It has to be across the board or else insufficient savings will be achieved to allow for the necessary tax cuts. It also needs to be across the board because such cuts simply cannot be made on an individualized basis. If done on that basis, politics and personalities would creep into the mix with chaos and unfairness the likely result.

¹² The net tax consumers, though outnumbered, usually win. See, *Political Class Dismissed*, pp. 18-31.

Legal Considerations

Can public employee compensation be substantially reduced across the board? Are there not union contracts that mandate certain benefits and salaries? Are there not state labor laws that maintain the status quo if the parties cannot agree on new contracts? While this may be true, it does not change the fundamental message of this report. This report recommends a reduction in public sector compensation because this step is absolutely necessary for the resuscitation of Buffalo's economy. It is the job of elected officials, policy makers and their legal teams to implement needed reforms. If the special interests have constructed legal obstacles to needed reforms, *the obvious solution is to sweep those laws aside* by appropriate legislation or constitutional amendment, rather than helplessly shrug our shoulders and watch our community continue to decline.

In the coming months, Free Buffalo will address these legal issues in detail and recommend needed reforms. It is clear that the next phase of the battle to reduce the cost of local government will take place in Albany where most of the obstacles to such reform were created.

However, state labor laws do not prevent municipalities from eliminating positions from the budget. If for whatever reason, legal or political, public payrolls cannot be reduced across the board, the only recourse would be mass layoffs which achieve the same fiscal savings. It seems to us that a 20 percent pay cut is preferable to a 100 percent pay cut.

A Pay Raise for Private Sector Workers

While one can quibble about the statistics relied on in this report, it is difficult to argue against its main conclusions:

1. Public sector employee compensation is far too generous compared to private sector compensation.
2. *Public sector compensation should be reduced by at least 20 percent across the board until it is commensurate with private sector compensation and to allow our tax rates to be competitive with other states.*
3. Such savings should be applied first to tax cuts. This will in effect constitute a pay raise for private sector workers and a boon to the economy as well.
4. Some of the lost income from declines in public sector compensation will be offset by lower taxes and a myriad of benefits public employees will derive from a newly thriving private economy (e.g., better and cheaper goods and services, higher wages for household members who work in the private

sector, and better options for switching to the private sector themselves).

5. For example, a worker making \$50,000 will lose \$10,000 in compensation, however, could recoup much of that amount in tax savings (income, property and sales).
6. *Public sector compensation must be tied to private sector compensation* such that increases in public sector compensation can only occur when there are increases in private sector compensation.
7. Government workers should support these proposals either out of a concern for the revival of the local economy upon which the continued existence of our very way of life depends, or because of their own enlightened long-term self-interest.
8. Since this proposal involves a redistribution of wealth from the well-off to the less well-off, all those who think of themselves as liberal or progressive Democrats should enthusiastically support it.

Total local government spending in Erie and Niagara Counties is about \$5 billion. As much as half or \$2.5 billion is in personnel costs. A twenty percent cut in wages and benefits for local government workers would yield a savings or potential tax cut of about \$500 million. That would amount to, in effect, an average “pay raise” of over \$1,000 per year for Buffalo Niagara’s 440,000 private sector workers and sole proprietors.¹³

Impact on 2006 Erie County Budget

For Erie County government alone, there would be a savings of about \$56 million (\$279,374,911¹⁴ x 0.2). County Executive Joel Giambra has proposed \$88,100,000 million in tax increases—1/2 percent sales tax increase (\$63,200,000) and 17.4 percent property tax increase (\$24,900,000)—to help close a projected deficit of \$140 million for 2006.¹⁵ Such an enormous tax increase is unthinkable in an area whose economy is dying from high taxes. It is also unnecessary. If we combine the savings from a 20 percent payroll cut with various spending cuts proposed by the Buffalo Niagara Partnership in August¹⁶ (ECMC, ECC, Sheriff’s Road Patrols) and by Free Buffalo in

¹³ *Source:* U. S. Census.

¹⁴ Estimating County personnel costs actually paid for by the County is a Herculean task. When I asked a County budget expert for a figure, I was told there was no such figure. The figure used in this report is from the Four Year Plan dated October 15, 2006, p. II-10—

http://www.erie.gov/pdf/financial_plan_main_oct05.pdf

¹⁵ *Id.* at I-6.

¹⁶ <http://thepartnership.org/ecsp/index.html>

September¹⁷ (NFTA, culturals, Convention Center/Tourism, Bass Pro), the combined savings could allow the County to avoid raising taxes and to actually cut taxes by nearly \$40 million! See, Figure No. 2. That is approximately the amount collected by the additional one/quarter percent sales tax passed earlier in the year. That tax, expected to raise about \$31.6 million,¹⁸ can now be repealed and the property tax can now be reduced by several million dollars.

Note: With respect to the \$14 million the County allegedly has appropriated for the Bass Pro project, we received three different answers from three different County departments as to whether any of that amount is included in the 2006 budget. On the assumption that money is being borrowed, we estimate the 2006 budget hit at \$2,000,000.

¹⁷ <http://www.freebuffalo.org/articles/policyreports/partnershipfinal.pdf>

¹⁸ Four year plan at I-6.

http://www.erie.gov/pdf/financial_plan_main_oct05.pdf

Figure No. 2

Free Buffalo's Tax Cut Plan

| | | |
|---|--------------|---------------------------|
| 20 percent compensation cut | | \$56,000,000 |
| <i>Other budget cuts</i> | | |
| NFTA | 19,461,328 | |
| Culturals (Zoo, Science Museum, History Museum, Art Gallery, Philharmonic) | 4,512,500 | |
| ECC | 18,615,017* | |
| ECMC | 14,936,189** | |
| Convention Center/Tourism | 3,500,000 | |
| Bass Pro | 2,000,000 | |
| Control Board | 1,426,300 | |
| Free Sheriff's Road Patrols | 4,400,000*** | |
| Additional budget cuts | <hr/> | 68,851,334 |
| Total budget cuts | | \$124,851,334 |
| County Executive's proposed tax increase | | \$88,100,000**** |
| Free Buffalo's proposed tax cut | | <hr/> \$36,751,334 |

*See, A Plan for Moving On, pp. 253, et seq.

**See, A Plan for Moving On, pp. 277, et seq.

***See, A Plan for Moving On, pp.338, et seq.

****See, Four Year Plan at I-6.

Subsidies to the NFTA, ECC, and ECMC, each of which has a gargantuan budget (see Figure No. 3), can be made up by each organization through payroll cuts along the same lines as proposed in this report. Since this report proposes cuts that should make Erie County solvent for the long-term, we can eliminate the budget of the control board entirely. Likewise, cultural organizations will have to make due by cutting employee compensation, raising fees, and attracting more private sector funding.

To the extent that any pre-existing contracts mandate any of the subsidies we now propose to eliminate, our position is: modify them! Keep in mind that these are all public entities created to serve the interests of the people of the State. We reject the attitude of the political class that the people exist to serve them and their bloated bureaucracies.

Figure No. 3

Impact on Grantees

| <i>Grantee</i> | <i>total budget</i> | <i>budget cut</i> | <i>percentage</i> |
|----------------|---------------------|-------------------|-------------------|
| NFTA | \$149,000,000 | \$19,461,328 | 13 percent |
| ECC | \$80,900,000 | \$18,615,017 | 23 percent |
| ECMC | \$227,000,000 | \$14,936,189 | 7 percent |
| Zoo | \$5,300,000 | \$1,500,000 | 28 percent |

Some final thoughts

If, after this across-the-board pay cut is enacted, public employees complain that they cannot match their prior compensation package in the private sector, are they not thereby conceding the basic thesis of this report: that, on average, public sector workers are paid far more than they could earn in the private sector?

Any complaints about this proposal should be addressed first to the tens of thousands of workers who struggle to survive in our sickly economy at wages of seven or eight dollars per hour with few or no benefits while helping to pay exorbitant public sector salaries and pensions. Let us know what they have to say and then we'll discuss it further.

Anyone who is still not convinced that immediate and drastic changes are needed in this area should consider this headline story in the Buffalo News on October 9th: “Delphi, the region’s largest manufacturer, files for bankruptcy.”

Is Delphi our final wakeup call?

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