



Wisconsin's Budget Crisis & Proposed Reforms

In a nutshell, the legislation that prompted the original outburst by Wisconsin's government unions would simply force most state employees to contribute more to their pensions and health benefits than they currently do while reducing slightly their power to make ever-greater demands of taxpayers.

According to an analysis by state Representative Kevin Petersen, because "the 16 furlough days endured by state workers during the past 2 years will no longer be mandated," when all of the changes are taken together, the take-home-pay reduction for most government personnel, excluding public safety workers like police and firefighters, could be as low as 4.2 percent. He found that if a state worker making \$50,000 a year — "Note: \$50,000 is the base salary; it does not include state provided fringe benefits including healthcare, pension, sick days, vacation, etc." — opted out of the union (and paying union dues), "the entire loss to the employee's current income would be about \$175 per month." And the money would be spent on "their personal healthcare policy and retirement."



The bill would also prohibit most government workers from collectively bargaining for anything other than their salaries, or from demanding pay increases above the Consumer Price Index measure of inflation. To bypass the salary cap would require voter approval. Additionally, the bill would stop unions from forcing public employees to pay dues. It would also cut some spending in an effort to rein in the state's massive budget deficit.

Gov. Walker explained the situation in a speech to legislators: "Most state workers only pay about 6 percent of their premium costs for their health care plan," he said. "Asking public employees to make ... a premium payment of 12 percent, which is about half of the national average, would save the state more than \$30 million over three months."

In reality, the 12-percent figure is even less than half of the average. A study by the Kaiser Family Foundation found that the national average contribution toward healthcare policies among government and private-sector workers was almost 30 percent. Wisconsin taxpayers will need to pay over \$1 billion for state employees' health-insurance plans in 2011, up from around \$423 million a decade ago. Meanwhile, state-government workers will contribute less than \$65 million for their plans in 2011.



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In addition to the increased contributions from state- and local-government workers toward their healthcare premiums, Gov. Walker's plan would force most employees to pay almost six percent of their salaries toward pension costs, up from less than one percent right now. According to the Governor's office, from 2000 to 2009, state taxpayers spent about \$12.6 billion on public-employee pensions. During that time, government-sector employees contributed a paltry \$55 million. But here, making a comparison with the private sector is difficult, if not impossible.

The vast majority of workers in the private sector don't even have pension plans at all. Often-volatile and non-guaranteed retirement benefits such as 401(k) plans are the norm among the remaining non-government workers who even have any sort of employer-sponsored retirement package. But among government employees nationally, Walker's 5.8 percent-contribution proposal still falls short of the average, which is around 6.3 percent.

As Gov. Walker put it in his speech to legislators: "Most workers outside of government would love a deal like that — particularly if it means saving jobs." And that is almost certainly true.

Of course, many government employees argue that they receive such lucrative health insurance and pension plans — not to mention virtually assured job security — owing to generally lower pay than their private-sector counterparts. Various organizations have produced studies that purport to prove and disprove the allegation. But based on some anecdotal evidence gathered from Wisconsin, government-sector workers are very well paid, to say the least (even considering that government-school teachers, for example, have at least a four-year degree).

In Milwaukee, the MacIver Institute, citing local authorities, offered some startling numbers: the average Milwaukee teacher will receive more than \$100,000 in 2011 compensation, plus several months of paid vacation. More than \$55,000 of that is salary.

Average government-teacher compensation throughout the state is well above \$75,000 including several months of paid vacation. For Americans in private industry, average compensation including benefits is around \$58,000, according to a study by the Bureau of Labor statistics. Most private-school teachers make far less.

But government-worker unions in Wisconsin, with some notable exceptions, have largely agreed to most of the increased contributions. The main problem for the protesters deals with how the reforms affect their unions and collective bargaining.

The reform legislation's most controversial parts would curtail the power of most state- and local-employee unions. According to the proposal: "This bill limits the right to collectively bargain for all employees who are not public safety employees (general employees)." Under the plan, government workers would also vote every year on whether they wanted to keep their unions.

There are, of course, in addition to many fiscal reasons for reducing the grip of unions on government coffers, other problems brought on by union powers. Gov. Walker outlined a number of examples in a series of press releases posted on his office's website.

For one, state education unions prevent massive healthcare cost savings by forcing many employees into inefficient union-run plans. A specific example: Corrections employees collectively bargained for a provision to allow workers who called in sick to earn overtime if they showed up for work the same day. The scheme bilked taxpayers for millions of dollars.

Another problem caused by collective bargaining involves scheduling of workers, which in many cases



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is based on union dictates instead of operational needs. Collective bargaining also prevented the exploration of more efficient options through privatization, according to the data released by the Governor's office. Most services done by government — administration, cleaning, maintenance, etc. — could easily be privatized for efficiency and savings. And according to Walker, local governments could realize large savings through union reform as well — up to \$700 million per year — providing more flexibility to deal with fiscal realities.

But protesters swarming Madison don't see it that way. And some of their claims about the proposal and Gov. Walker's efforts, it turns out, are misleading at best. For example:

- Protesters are insisting that their collective-bargaining "rights" are being infringed upon. Of course, what they are really referring to is, in fact, a government-created privilege: the ability to continue demanding ever-greater amounts of taxpayer wealth. Nobody has an unalienable right to force their employer, let alone the taxpayers, to continue handing over more and more money. Plus, the bill does not even abolish unions, it just curtails their powers in a way that Gov. Walker insists is necessary to balance the budget.

- Numerous protest leaders and media commentators have suggested the budget crisis was invented as a pretext to go on a "union busting" spree. Leftist MSNBC personality Rachel Maddow, on February 17, clearly misled viewers when she said: "Despite what you may have heard about Wisconsin's finances, the state is on track to have a budget surplus this year." The facts prove these and similar claims false. Former Wisconsin Democrat Gov. Jim Doyle, along with Democratic legislators, managed to conceal the state's financial problems for years by raiding various state funds, ranging from road-building money to a medical-malpractice compensation fund. And with federal "stimulus" money running out, the problem only grew larger: Over the next two years, the state has at least a \$3.6 billion budget deficit — probably more. Estimates on the longer-term cost of unfunded state-employee pension liabilities for Wisconsin vary widely, but somewhere around \$63 billion seems to be the consensus.

- Another popular talking point used by protesters and their allies is that Gov. Walker and Republican lawmakers caused the budget crisis by passing a tax cut earlier this year. That, too, turns out to be false upon closer scrutiny. In fact, the tax break does not affect 2011's budget at all, since it does not apply for this fiscal year. And tax breaks generally lead to more jobs and a larger tax base.

- Protesters have also repeatedly said the reforms represent an "attack" on "the American Dream." While no single established definition exists for the term, the "American Dream" is almost universally understood to mean that the country's freedom provides the opportunity to chase one's dreams and eventually achieve success, regardless of circumstances or birth. Never has that dream meant having a right to "demand" a certain wage or pension from an employer — let alone taxpayers.

Considering the bleak fiscal situation facing the state, GOP leaders have warned that if the problem is not solved soon, the government could be forced to lay off workers — possibly more than 10,000. Borrowing more money could be an option, too, but it would not be sustainable. Another temporary option to delay solving the fiasco would be to — like the federal government regularly does with the Social Security "trust fund" — raid other state funds. But that's already been done, and at least in some instances was declared illegal by state courts. It has made finding a fiscal solution more difficult.

Of course, unions and socialists are urging the government to raise taxes on businesses and "the rich." But as history and the facts show, such a move would simply exacerbate the problem by chasing more productive people and a larger segment of the tax base out of state, or forcing more firms out of



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business. But the looming crisis can only be concealed for so long, and if it is not dealt with, analysts warn that it will be even more painful to face in the coming years and decades.

Photo of Gov. Scott Walker: AP Images

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