The Great Recession and Compensation Practices: New Rules for Compensation?

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Abstract

This article introduces the Governance Matters essays for this issue. It discusses the Great Recession and its effects on Labor Relations and Collective Bargaining and the effects of these on compensation practices in State and Local Governments. The Great Recession is an enduring event in American government and politics. It has had marked impact on the structure and operations of State and Local government especially on budgets. Given, the large proportion of state and local government budgets devoted to compensation the Great Recession's economic and political effects may be greatest there. This article asks of the essays, whether changes in labor relations and collective bargaining due to the Great Recession are changing the rules for government compensation practices at the state and local level in the U.S. It concludes that they are, but the durability of these rule changes and the political impact is yet to be determined.

Keywords

Great Recession, "double dip" recession, state and local governments

Governance Matters has looked at the effects of the "Great Recession," as it has come to be called (Rampell 2009), on state and local governments. It is not a recession obsession that mitigates to our treating it again; rather, it is its genuine historical importance on a global scale. In fact, as the global economy has tried to absorb the current European debt and single monetary crisis, the world teeters on the possibility of a lengthened or "double dip" recession. In short, at this juncture, it is difficult to know the real length and impact of this economic event.

Clearly, the Great Recession is an economic event to remember. Moreover, impact has been especially hard on governments (both the source of some of it and the object of much of the impact) and more particularly on those at the state and local level. State and local governments are in a special fix in these circumstances because they rely on revenue from the sector whose collapse was the triggering event of the Great Recession in the United States, the housing market. Worse yet, state and local governments—like most enterprises—dedicate the greatest share of their budgets to employee pay and benefits. Accordingly, the effects of the Great Recession on state and local governments are most felt in the areas of employment and employee compensation.

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In this issue, we look at the Great Recession and Compensation Practices: New Rules for Compensation? We have two articles on compensation at the state and local level. Both pieces look at compensation but from different perspectives. Though both are empirical, their empirical contents are derived from different sources. One is based on a review of reported circumstances and changes across the nation in state and local compensation practices and the rules that inform them. The other reports the results of a survey on compensation practices and factors that are likely associated with these in local governments across the United States.

Effects of the Great Recession on Labor Relations and Compensation

What is the effect of the Great Recession on compensation and how has it changed the rules of the game as well as the practices in local governments? This is a key question to answer if we suspect that the impact of the recession on state and local governments is more than just across the board cuts and nontargeted layoffs of employees. If the Great Recession has a lasting impact on state and local government, it may well change the institutionalized practices of workforce governance and the components of and expectations for employee compensation.

Our first essay, The Great Recession's Institutional Change in the Public Employment Relationship: Implications for State and Local Governments, by Helisse Levine and Eric Scorsone, looks at the overall changes in the institution of public sector labor relations and the likely effects of these on state and local compensation. This includes, due to the inevitability of cutback decisions at the state and local levels, increased pension and health care costs and reduced pension benefits for employees, thus reducing compensation overall for state and local workers. This is due to a fundamental shift in the rules of the institution of collective bargaining so that reducing compensation rather than increasing it is becoming the original position. The authors seem to indicate that state and local compensation will be reduced overall. By way of conclusion they mention some ideas on what these compensation reductions are likely to do local government productivity and effectiveness in the coming years.

Effects of the Great Recession on Collective Bargaining and Compensation

How has collective bargaining been practiced and how are the practices and rules changing now that there is so much pressure on both the revenue and expenditure sides of state and local government due to the Great Recession? Clearly, public sector unions are not in an enviable spot at the moment, with a generally downward pressure on wages exerted by falling unemployment. For example, while still commanding unparalleled respect, the once inviolable compensation of police and firefighters—the "heroes" of 9/11, "public safety compensation" is now assailable for budgetary reasons. The passage of time and the shift of priorities is one reason that there is growing political will to do this; that their good compensation and very good pension benefits makes them attractive targets for reducing costs is another. Frustration with the assault on the current arrangement can be noted in the decisions by the International Association of Fire Fighters to withhold political donations until politicians start delivering the goods for unions (Schaitberger, 2011).

Our second piece, Budget Shortfalls, Employee Compensation and Collective Bargaining in Local Governments, by Thom Reilly and Mark Reed, speaks to this and several other important points about practices and changes in local government compensation. They start from the recognition that public sector union membership is high and that unions act to protect compensation levels overall not just the compensation and rights of individuals. Reporting results from an original survey done by the authors, they arrive at the conclusion that public sector unions have effectively protected their compensation at the

state and local level, at least until now. However, effects of this protection may not be equally enjoyed across the workforce, with more highly paid workers being less likely to suffer wage reductions to protect wage levels. This is most clearly seen in jurisdictions reporting the use of *tiered* benefit and wages plans which sacrifice the earnings of future hires for the pay levels of current employees. In fact, those nonmanagement, police, and fire units represented by collective bargaining have seen cost of living adjustments (COLAs) greater than those not so represented. In short, the rules for compensation may be changing somewhat for those not covered by public employee unions, but for those under their protection, not quite so much.

Conclusion

The upshot of our two pieces in this issue's Governance Matters section is that labor relations and compensation practices are drawing a great deal of attention at the state and local levels of government. They are obvious cost reduction targets and, for some elected officials, have an ideological component that makes them politically attractive. Consequently, they are areas that feel the strain of the Great Recession as state and local labor forces are reduced and wages and benefits are affected likewise. Yet, one question remains: are these downward trends changing the rules of the game as well as the outcome; when the Great Recession ends, will practices and pay return to prior rules and results?

Our two essays in this issue of Governance Matters provide a tentative answer to this question: it is too early to tell. Clearly, there are those who would like to change the rules as well as the results, as Levine and Scorsone make clear in their review of actions at the state and local levels. For some it is not merely about balancing budgets, but about exerting control over state and local compensation levels by changing the rules of the games. However, as Reilly and Reed suggest, those who wish to not only to reduce the payouts for public employees at the state and local levels, but also change the rules which favor the collective bargaining process, may not have had their way just yet. Though the rules may be changing for state and local government pay, some things have not changed. The players at the table are the same ones: state and local elected officials, administrators, public employee unions, public employees, and local constituents. The rules are changing in the sense that the strategic positions of the players have changed on account of resource pressures and political alignments. However, as Reilly and Reed make clear, when the chips are toted up, the local winners have stayed the same for the moment.

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Bio

Bruce J. Perlman is a professor and former director of the School of Public Administration at the University of New Mexico, where he has held the Hatch Chair in Law and Public Policy and been a presidential lecturer. Perlman has served as Chief Administrative Officer of the City of Albuquerque and Deputy Chief of Staff to the Governor of New Mexico. He has consulted widely with all levels and many types of governments and businesses both in the United States and with other nations.