THE BUCKEYE INSTITUTE *for* PUBLIC POLICY SOLUTIONS

Six Principles for Fixing Ohio

By **MATT MAYER**
February 2011

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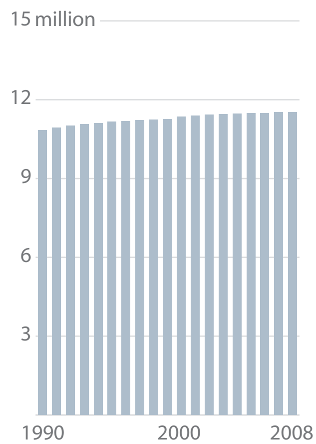
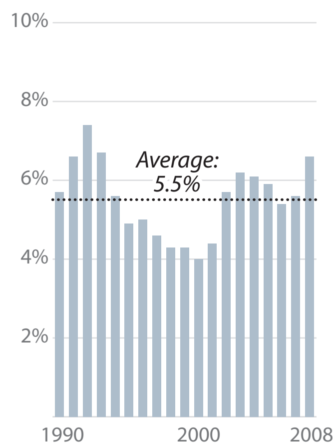
Why This Report Matters to You

During the 1990s and most of the 2000s, Ohio's population rose slightly, job growth was mild, unemployment was low, and the poverty rate remained steady. It was a period of relative stability and modest growth. Yet over the same period state **spending grew rapidly**, increasing 35 percent over 18 years, which begs the question: **Why?**

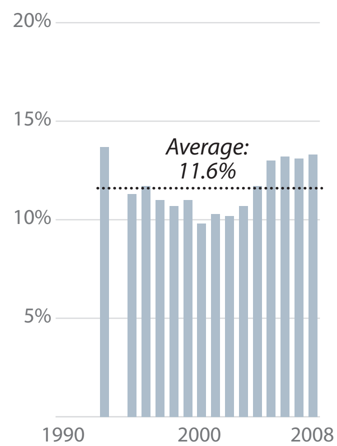
State Population



Unemployment Rate

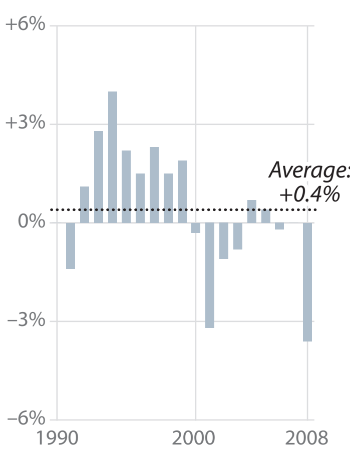


Percentage of Population Living in Poverty

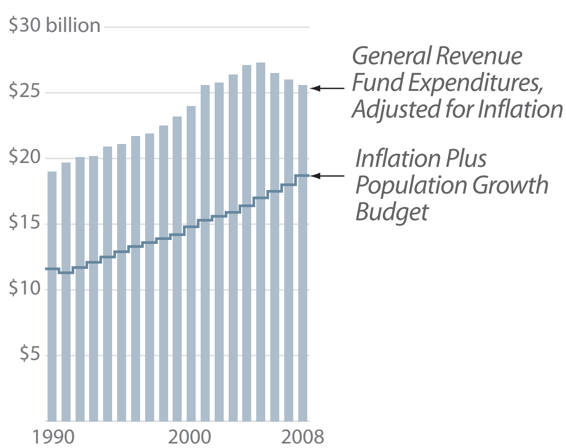


Data for 1990–1992 and 1994 not available.

Private Sector Employment
(*Annual percentage change*)



State Spending



Executive Summary

Fixing Ohio is going to hurt. Just like all of those Americans who spent the past fifteen years piling up debt on credit cards, buying homes they could not afford, and living lives of immediate gratification, Ohio's state and local governments—bulging with revenues from a growing, but fragile, national economy beginning in 1995—grew to a size simply too large and costly given today's economic realities.

It is time to start anew. After nearly two decades of irresponsible budgeting that assumed Ohio would always experience a booming economy (when compared to most of the other states, it never did), it makes little fiscal sense to baseline the next budget on the indefensible budgets of yesterday. Ohio's taxpayers and businesses, beaten and bruised, simply cannot take an even heavier load.

Because of the pending fiscal crisis, we have a rare opportunity to fundamentally reform government and the economy in Ohio. While painful, these reforms can put Ohio on the path to a strong recovery. And make no mistake, if the ruling class fails to tackle the tough challenges ahead and allows the entrenched interests to win, Ohio will become a permanent laggard among the states. Our best and brightest young citizens will certainly continue to migrate south and west.

No matter how fervent a proponent of big government you may be, a vibrant government first requires a vibrant private sector that creates prosperity for Ohioans and drives tax revenue into government. Though attempts were made to strengthen Ohio's private sector, those efforts largely involved nibbling on the margins of our problems and avoided tackling the consequential issues undermining Ohio's economic health.

From January 1990 to December 2010, Ohio's private sector netted a mere 102,200 jobs, or slightly more than 400 jobs per month, over 252 months.[1] After reaching a peak of 4.85 million private-sector jobs in March 2000, Ohio's job losses over the last ten years were worse than every state except Michigan. At the same time, Ohio added 62,100 government jobs to its cost roll, meaning that for every 1.65 net private-sector jobs created, a new government job was added.

With the loss of over 600,000 private-sector jobs since 2000 and all of the tax revenue collected from those jobs, the status quo across Ohio government units is simply not good enough. We must enact big changes. This report details six key principles that our political leaders should adhere to as they begin the tough process of fixing our state.

PRINCIPLE #1: **The Past is No Guide for Today's Budgets.** In 1990, the general revenue fund expenditures for Ohio stood at just under $11.6 billion. By 2009, it had grown to roughly $27 billion. In just 19 years, Ohio's budget grew by over 131 percent. Even adjusting for inflation, Ohio's budget outpaced inflation by 41 percent. If Ohio's political leaders simply had restrained spending to annual inflation plus population growth, Ohio's general revenue fund expenditures in 2009 would have been roughly $19.3 billion, or $7.5 billion less than the 2009 general revenue fund expenditures. The biennial difference would total $15 billion, which means Ohio today likely would have a healthy surplus instead of a crippling deficit. This $19.3 billion figure should serve as a new baseline for the next budget.

PRINCIPLE #2: **Break Labor's Stranglehold: Freedom Absent from Missouri to Maine.** Over the past two decades, forced unionization states had less than half the average net job growth (212,725) as

1 U.S. Department of Labor, Bureau of Labor Statistics, "Economy at a Glance: Ohio," at *http://www.bls.gov/eag/eag.OH.htm* (January 25, 2011).

worker freedom states (481,168), which is an average percentage growth of 17 percent versus 37 percent. Seven of the eight states with the strongest job growth—even after the housing and construction busts—are all worker freedom states: Nevada (78 percent), Utah (74 percent), Arizona (67 percent), Idaho (65 percent), North Dakota (51 percent), Wyoming (51 percent), and Texas (50 percent). In contrast, the fifteen states with the weakest job growth are all forced unionization states that form a block from Missouri to Maine, plus California and Hawaii.

PRINCIPLE #3: **Put Taxpayers and Vulnerable Populations Ahead of Government Pay Scales and Public-Sector Unions.** There are more than 11.5 million Ohioans of which roughly 777,000 work for some government entity. At most, just under 3.0 million Ohioans work for government or are dependents of government workers. The remaining 8.5 million Ohioans, or 74 percent, fund government. If the compensation packages of government workers are not reined in and the power of government unions are not curbed, private-sector taxpayers and Ohio's vulnerable populations will be forced to carry even more of the burden of the new economic normal via higher taxes and more significant program cuts.

PRINCIPLE #4: **Government Retirements Should Mirror What the Rest of Us Have.** For the vast majority of Ohioans, the Social Security program represents the largest element of their retirements. In order to receive the full benefits of the Social Security program, private-sector Ohioans must wait until they are 67 years old. In stark contrast, state government workers can retire with full pension benefits after just 30 years, making many able to retire when they are 52 years old (48 years old for fire and police personnel). With a life expectancy of 78 years, these young retirees will collect their pensions almost as long as they worked for government. Michigan switched to defined-contribution plans for new state workers back in 1997 and Democrat-led Illinois made the switch effective January 1, 2011. What is stopping Ohio from these reforms?

PRINCIPLE #5: **Make Thinking Outside the Box More Than a Slogan.** The list of problems facing Ohio is long, but with creative thinking, can be eliminated. The list of areas where real reforms can result in measurable, long-term improvements include state and local tax reform; government transparency, consolidation, and productivity improvement; criminal justice reform; and higher education reform. If we want innovative thinking, we must look at these areas anew and from a different angle.

PRINCIPLE #6: **Demand the Federal Government Respect Our Ability to Get Things Done.** After seventy-plus years of centralization in Washington, it is time we take seriously the ideas of decentralization and federalism. It goes without saying that any money Ohio receives from Washington is really just our own money coming back—minus an "administrative fee" to pay for the bureaucracy—to us with strings attached or unfunded mandates. Does this really make sense (as if it ever did)? We must restore the balance of power between the federal government and the states. For too long, the states have lacked a check on the power and arrogance emanating out of Washington. Let the fifty states keep their money and run their own programs.

By **MATT MAYER**

Six Principles for Fixing Ohio

PRINCIPLE #1

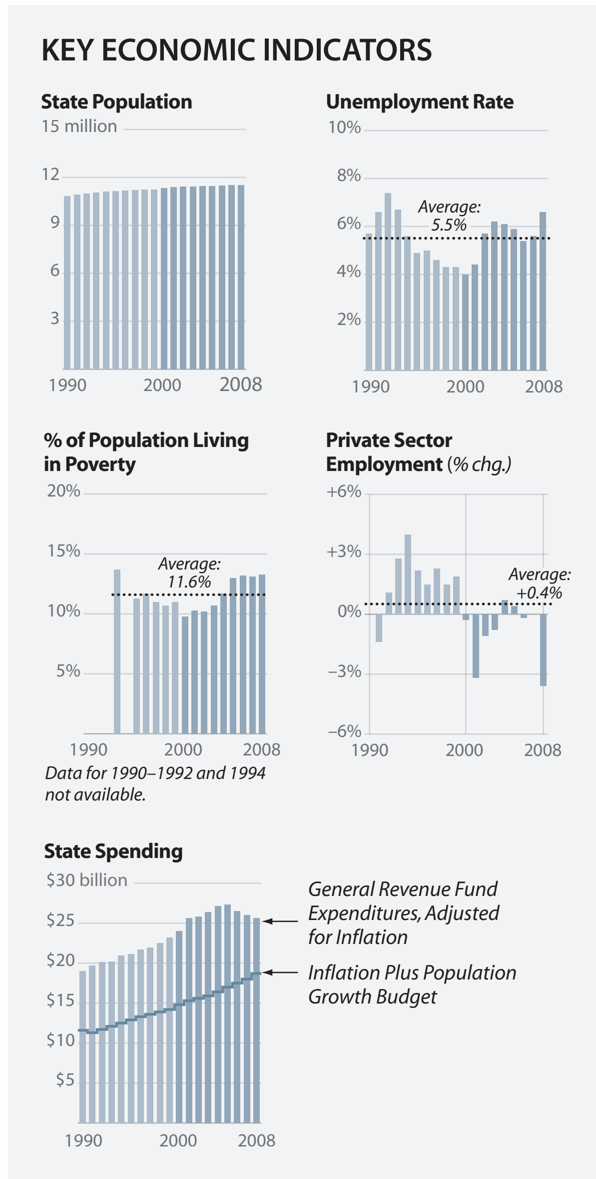
The Past is No Guide for Today's Budgets

In 1990, the general revenue fund expenditures for Ohio stood at just under $11.6 billion.[2] By 2009, it had grown to roughly $27 billion. In just 19 years, Ohio's budget grew by over 131 percent. Even adjusting for inflation, Ohio's budget outpaced inflation by 41 percent. One must ask: What crises occurred during those years to account for such a large increase in government costs? Higher unemployment? Greater poverty? More people who needed more infrastructure?

In 1992, the unemployment rate reached 7.4 percent.[3] By 2000, it had declined to an astonishingly low 4.0 percent. After the dotcom/technology bubble burst in 2000 and the September 11, 2001, terrorist attack, Ohio's unemployment rate climbed back to 6.2 percent in 2003, but declined over the next few years when it hit 5.4 percent in 2006. It stood at 6.6 percent in 2008. With such low unemployment, government growth was not tied to helping millions of out-of-work Ohioans.

In 1993, the poverty rate in Ohio was 13.7 percent.[4] Throughout the 1990s, the poverty rate declined until it hit a low of 9.8 percent in 2000. It remained low over the next four years and then inched back up to 13.3 percent by 2008. As with the unemployment rate, Ohio's budget increases were not due to an exploding level of poverty.

In 1990, the U.S. Census Bureau estimated that



2 The Office of Budget and Management, H.B. 1 Represents the Lowest Growth Budget in Modern Ohio History, "General Revenue Fund Expenditures," at http://*obm.ohio.gov/sectionpages/Budget/FY1011/Default.aspx* (October 19, 2010).

3 State of Ohio, Department of Job and Family Services, "Civilian Labor Force Estimates Query," at *http://lmi.state.oh.us/asp/laus/LAUS.asp* (February 18, 2011).

4 U.S. Census Bureau, "Model-based Small Area Income and Poverty Estimates (SAIPE) for School Districts, Counties, and States," at *http://www.census.gov/did/www/saipe/index.html* (February 18, 2011).

Ohio was home to 10,847,115 people.[5] Over the next 18 years, not once did Ohio's population increase by more than 1.0 percent. In fact, the yearly average population growth in Ohio from 1990 to 2008 was 0.3 percent. From 1990 to 2008, Ohio's population increased just 6.3 percent. The growth of government was not driven by a large increase in people who needed more roads, schools, and other government-funded services.

The median household income in Ohio jumped by 41 percent from $33,958 in 1995 to $48,011 in 2008.[6] State and local government workers had it even better. The average yearly state and local government salary leapt 81 percent from $23,165 in 1990 to $41,863 in 2008.[7] Spending per pupil in Ohio's public schools increased by 98 percent from $5,311 in 1994 to $10,512 in 2008.[8]

Ohio's spending increased for one simple reason: A strong national economy drove higher revenues into government. Thus, politicians grew government to use those revenues. The fact is that, rather than budget according to real needs or lean revenue forecasts, politicians created budgets based on boom economies. When the boom ended in 2008, revenues plummeted and large budget deficits appeared. Contrary to the view of some groups, the answer is not to extract more revenues from already over-taxed Ohioans; rather, the answer is to reduce spending to match the new normal of less revenue.

From 2000 to today, Ohio's private sector has lost a net of 612,700 jobs.[9] That means there are over 600,000 fewer workers whose activities generated tax revenues to fund government. During that same period of time, Ohio lost a net of only 1,600 government jobs. That means 613,000 fewer workers today are paying for roughly the same size government Ohio had ten years ago in terms of employees. As New York Times columnist David Brooks recently wrote, "The coming budget cuts…have to do with inexorable logic of mathematics."[10]

Although this spending spree occurred under both Republican and Democrat leadership, the vast majority of it occurred when Republicans held both branches of government in Ohio. Only four years after voters ended twelve years of one-party rule, due to the inability of Democrats to reform Ohio for the future, voters again have entrusted Republicans with control of the Governor's Office and the Statehouse. These new leaders should take one vital lesson from the last four years: If you fail to make the tough choices, the voters will turn on a dime and replace you.

If Ohio's political leaders simply had restrained spending to annual inflation plus population growth, Ohio's general revenue fund expenditures in 2009 would have been roughly $19.3 billion, or $7.5 billion less than the 2009 general revenue fund expenditures. The biennial difference would total $15 billion, which means Ohio today likely would have a healthy surplus instead of a crippling deficit. This $19.3 billion figure should serve as a new baseline for the next budget. That means an end-to-end analysis of the state budget is required to recalibrate the programs and spending priorities that have long since been lost in the fog of government spending run amok.

5 U.S. Census Bureau, "Population Estimates," at *http://www.census.gov/popest/states* (February 18, 2011).

6 U.S. Census Bureau, "Model-based Small Area Income and Poverty Estimates (SAIPE) for School Districts, Counties, and States."

7 State of Ohio, Department of Job and Family Services, "Employment & Wages by Industry," at *http://lmi.state.oh.us/cep/cep.htm* (February 18, 2011).

8 U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, at *http://nces.ed.gov/ccd*.

9 U.S. Department of Labor, Bureau of Labor Statistics, "Economy at a Glance: Ohio," at *http://www.bls.gov/eag/eag.OH.htm* (January 25, 2011).

10 David Brooks, "The Freedom Alliance," The New York Times (February 10, 2011).

PRINCIPLE #2

Break Labor's Stranglehold: Freedom Absent from Missouri to Maine

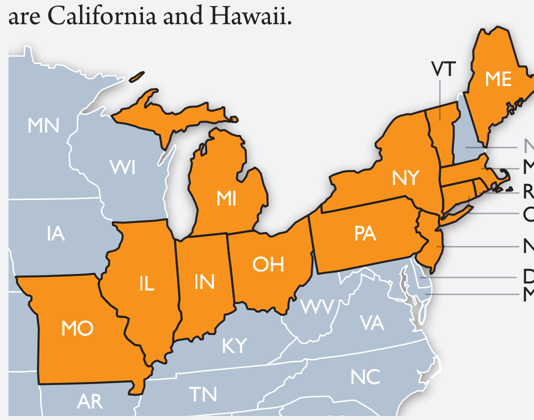
From January 1990 to December 2010, Ohio's private sector netted a mere 102,200 jobs, or slightly more than 400 jobs per month, over 252 months.[11] After reaching a peak of 4.85 million private-sector jobs in March 2000, Ohio's job losses over the past ten years were worse than every state except Michigan. At the same time, Ohio added 62,100 government jobs to its cost roll, meaning that for every 1.65 net private-sector job created, a new government job was added.

There are fewer jobs today than in January 1990 in five out of ten industry sectors: Mining & Logging; Construction; Manufacturing; Trade, Transportation & Utility; and Information. In four other industry sectors, there are fewer jobs today than in January 2000: Financial Activities; Professional & Business Services; Leisure & Hospitality; and Other Services. In Financial Activities, if Ohio loses another 8,500 jobs, that sector will join the other five with fewer jobs today than in January 1990. The only healthy industry sector is Education & Health Services, which can be attributed to that sector's reliance on government funding (K–12 education, higher education, Medicare, Medicaid, and other government-funded aspects).

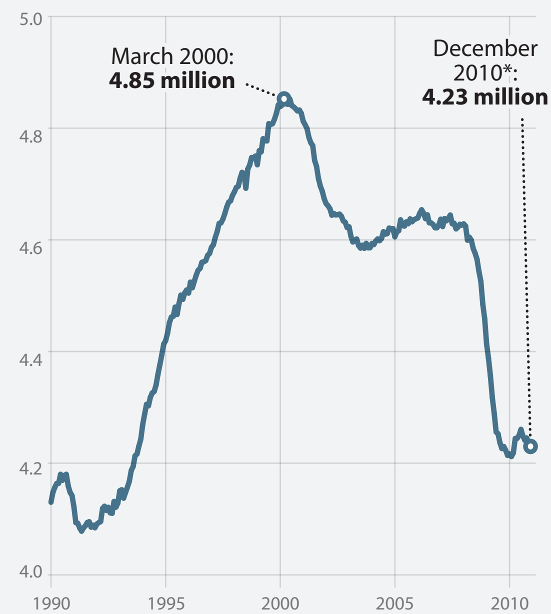
To put the sobering picture at right into an even starker framework, if Ohio adds job at a pace equal to the average positive years of job growth in the "booming" 1990s, we will not regain the jobs lost since March 2000 until November 2018. If the predictions of a "lost decade" prove accurate, Ohio's jobs recovery will not occur until children born today are entering high school in the 2020s. If Ohio wants to "buy forward" this recovery date, it must adopt the single largest driver of job growth: protecting the economic freedom of

A BLOCKADE ON WORKER FREEDOM

The 15 states with the lowest private sector job growth from 1990 to 2010 are all Forced Unionization states, including the 13 highlighted below stretching from Missouri to Maine. The other two are California and Hawaii.



TOTAL EMPLOYMENT IN OHIO, IN MILLIONS OF JOBS



* Estimate

Source: U.S. Department of Labor, Bureau of Labor Statistics.

11 U.S. Department of Labor, Bureau of Labor Statistics, "Economy at a Glance: Ohio."

CHANGE IN EMPLOYMENT, BY SECTOR

Job Losses: –0.1% to –9.9% | –10% to –19.9% | –20% to –50%

Industry/Sector	EMPLOYMENT TOTALS 1990 (Jan.)	2000 (Jan.)	Stimulus Signed (Feb. 2009)	2010 (Dec.)	CHANGES IN EMPLOYMENT TOTALS 1990 to 2000	2000 to 2010	1990 to 2010	Stimulus to 2010
Total Non-Farm	4,838,600	5,617,200	5,180,400	5,002,900	778,600 (16%)	–614,300 (–11%)	164,300 (3%)	–177,500 (–3%)
Mining and Logging	18,000	13,100	12,000	11,800	–4,900 (–27%)	–1,300 (–10%)	–6,200 (–34%)	–200 (–2%)
Construction	194,300	247,600	195,500	163,900	53,300 (27%)	–83,700 (–34%)	–30,400 (–16%)	–31,600 (–16%)
Manufacturing	1,044,100	1,031,600	666,500	620,200	–12,500 (–1%)	–411,400 (–40%)	–423,900 (–41%)	–46,300 (–7%)
Trade, Transportation & Utility	961,900	1,117,400	992,600	942,500	155,500 (16%)	–174,900 (–16%)	–19,400 (–2%)	–50,100 (–5%)
Information	99,600	106,900	83,500	74,400	7,300 (7%)	–32,500 (–30%)	–25,200 (–25%)	–9,100 (–11%)
Financial Activities	253,300	307,400	283,500	261,800	54,100 (21%)	–45,600 (–15%)	8,500 (3%)	–21,700 (–8%)
Professional and Business Services	444,200	636,400	635,000	621,600	192,200 (43%)	–14,800 (–2%)	177,400 (40%)	–13,400 (–2%)
Education and Health Services	533,800	672,300	823,700	839,200	138,500 (26%)	166,900 (25%)	305,400 (57%)	15,500 (2%)
Leisure and Hospitality	401,100	483,800	480,000	481,100	82,700 (21%)	–2,700 (–1%)	80,000 (20%)	1,100 (0.2%)
Other Services	173,500	222,200	215,400	209,500	48,700 (28%)	–12,700 (–6%)	36,000 (21%)	–5,900 (–3%)
Government	714,800	778,500	792,700	776,900	63,700 (9%)	–1,600 (–0.2%)	62,100 (9%)	–15,800 (–2%)
Non-Farm, Non-Government	4,123,800	4,838,700	4,387,700	4,226,000	714,900 (17%)	–612,700 (–13%)	102,200 (3%)	–161,700 (–4%)

Source: U.S. Department of Labor, Bureau of Labor Statistics.

workers who choose not to join a union.

In comparing the job gains and losses between forced unionization states (Ohio) and worker freedom states, the data clearly shows the superiority of breaking free from unions, even in northern states. The average net job gains in forced unionization states from 1990 to 2000 and from 2000 to 2010 were 326,325 and -113,600, respectively. For worker freedom states, the average net job gains in those periods were 446,086 and 35,082, respectively. Over the past two decades, forced unionization states had less than half the average net job growth (212,725) as worker freedom states (481,168), which is an average percentage growth of 17 percent versus 37 percent.

As the table on the next page shows, seven out of eight states with the strongest job growth—even after the housing and construction busts—are all worker freedom states: Nevada (78 percent), Utah (74 percent), Arizona (67 percent), Idaho (65 percent), North Dakota (51 percent), Wyoming (51 percent), and Texas (50 percent). In contrast, the fifteen states with the weakest job growth are all forced unionization states that form a block from Missouri to Maine, plus California and Hawaii. The impact this factor has on states' economic health is vividly demonstrated by the federal unemployment fund deficits between forced unionizations states ($32.24 billion debt) and worker freedom states ($9.32 billion debt).

Of course, tax and regulatory burdens also impact a state's economy. Although many of the forced unionization states have heavy tax burdens and many of the worker freedom states have light tax burdens, some heavily taxed worker freedom states (Idaho, Nevada, and Utah) had the strongest sustained job growth from 1990 to today. Similarly, a few moderately taxed forced unionization states still had weak job growth (Indiana, Illinois, and Missouri). The combination of both a heavy tax burden and forced unionization is deadly when it comes to job growth, as 11 of the 15 worst performing states are ranked in the top 20 for high tax burdens.

With an $8 billion state deficit and rising deficits across local government units, reducing Ohio's high state and local tax burden will be a lot more difficult than passing legislation that makes Ohio a worker freedom state. Our leaders must recognize that it is no longer the 1950s, and thereby realize comparing a defeat then—at the height of the union movement in America—to today is faulty. Importantly, making Ohio a worker freedom state would not ban unions; rather, it would simply give workers the choice whether or not to join a union. Ohio businesses could much better contend with both foreign competitors, as well as competitors in the southern and western United States, given that they would have more control over labor costs and workplace rules.

At the end of the day, we must ask ourselves: Is it better to have strong unions and fewer jobs or weak unions and more jobs? Our guess is that even rank and file union members would quietly prefer the latter, as it beats a system that rewards seniority, punishes younger workers, fails to reward performance, and results in fewer job opportunities.

PRINCIPLE #3

Put Taxpayers and Vulnerable Populations Ahead of Government Pay Scales and Public-Sector Unions

There are more than 11.5 million Ohioans, of which roughly 777,000 work for some government entity. At most, just under 3.0 million Ohioans work for government or are dependents of government workers. The remaining 8.5 million Ohioans, or 74 percent, fund government. Why do we allow less than one-fourth to dictate the tax burden of three-fourths of Ohio? As the public-sector unions hire lobbyists and public relations gurus to maintain the status quo, who will represent the equities of private-sector Ohioans down at the Statehouse?

Current proposals to reform Ohio's collective bar-

FORCED-UNIONIZATION STATES HAVE WEAKER ECONOMIC GROWTH

State	Net Government Job Growth, 1990–2010	Net Private Sector Job Growth, 1990–2010	% Change Net Private Sector Job Growth, 1990–2010	Rank—Total State and Local Tax Burden as % of State Income *(1= Highest)*	Right to Work
Connecticut	33,000	–64,000	–4%	3	**No**
Rhode Island	–1,300	–9,600	–2%	10	**No**
Michigan	800	–70,400	–2%	17	**No**
Ohio	62,100	102,200	2%	7	**No**
New Jersey	51,300	85,500	3%	1	**No**
New York	1,400	221,500	3%	2	**No**
Massachusetts	25,600	114,100	4%	23	**No**
Illinois	101,200	236,500	5%	30	**No**
Pennsylvania	60,500	370,200	8%	11	**No**
Maine	4,700	41,800	9%	15	**No**
Indiana	59,600	213,900	10%	28	**No**
California	404,400	1,042,000	10%	6	**No**
Vermont	12,000	22,200	10%	8	**No**
Missouri	91,900	205,100	10%	32	**No**
Hawaii	23,000	50,600	12%	5	**No**
Alabama	62,400	170,200	13%	38	Yes
District of Columbia	-25,400	61,200	15%	—	—
Maryland	79,300	271,400	16%	4	**No**
Mississippi	44,000	119,100	16%	36	Yes
Delaware	14,900	52,300	18%	24	**No**
South Carolina	74,300	226,800	18%	37	Yes
Tennessee	81,500	341,600	19%	44	Yes
West Virginia	24,200	93,800	19%	29	**No**
Wisconsin	91,400	371,700	19%	9	**No**
North Carolina	252,200	522,500	20%	20	Yes
New Hampshire	27,100	89,700	20%	46	**No**
Kentucky	64,400	251,700	21%	25	**No**
Iowa	37,400	218,800	22%	31	Yes
Kansas	45,000	197,300	23%	21	Yes
Louisiana	43,300	294,400	24%	42	Yes
Minnesota	66,300	458,200	26%	12	**No**
Arkansas	55,900	195,500	26%	14	Yes
Virginia	126,700	615,700	27%	18	Yes
Georgia	153,400	669,000	27%	16	Yes
Oregon	69,000	289,700	29%	26	**No**
Washington	153,000	539,200	31%	35	**No**
Oklahoma	68,600	298,100	33%	19	Yes
Nebraska	27,700	197,800	34%	17	Yes
Florida	281,500	1,558,600	34%	47	Yes
New Mexico	51,100	193,500	47%	39	**No**
South Dakota	15,700	105,400	48%	45	Yes
Alaska	16,100	76,800	48%	50	**No**
Colorado	117,300	591,400	48%	34	**No**
Texas	595,300	2,854,400	50%	43	Yes
Wyoming	17,900	71,100	51%	48	Yes
North Dakota	10,900	99,100	51%	33	Yes
Montana	16,800	115,300	52%	40	**No**
Idaho	38,900	191,900	65%	13	Yes
Arizona	142,600	804,600	67%	41	Yes
Utah	66,800	413,800	74%	22	Yes
Nevada	76,500	420,000	78%	4	Yes

Sources: U.S. Department of Labor, Bureau of Labor Statistics; and Justin Higginbottom, "Monday Maps: State and Local Tax Burdens vs/ State Tax Collections," Tax Foundation, May 10, 2010, at *www.taxfoundation.org/blog/printer/26289.html* (February 22, 2011).

STATE EMPLOYMENT RELATIONS BOARD CONTRACTS

	Contracts Filed	Strike Ineligible	Strike Eligible	Notice of Intent to Strike	Strikes	Fact-Findings	Binding Arbitration
2000	1,146	419	727	33	2	145	3
2001	1,023	298	725	33	8	128	15
2002	1,063	348	715	33	6	145	34
2003	1,103	367	736	29	7	177	37
2004	1,039	335	704	22	4	131	26
2005	1,110	368	742	20	1	125	26
2006	1,160	399	761	25	6	134	27
2007	1,044	334	710	23	4	114	21
2008	1,097	369	728	9	3	119	19
2009	712	221	491	12	2	126	11
2010	224	29	195	3	0	133	43
Total	**10,721**	**3,487**	**7,234**	**242**	**43**	**1,477**	**262**
% Total Contracts		**33%**	**67%**	**2%**	**0.4%**	**14%**	**2%**
% Eligible Strikes		—	—	**3%**	**0.6%**	—	—

Source: State Employment Relations Board, Contract Data 2000–2010.

gaining law include eliminating the right to strike and binding arbitration. Both reforms are solid steps, but neither will bend the spending curve down. The fact is roughly 33 percent of all government contracts already involve bargaining units prohibited from striking.[12] Since 2000, Ohio has had 10,721 bargained contracts. Of those, 3,487 contracts covered safety units who cannot strike. That leaves 7,234 bargained contracts with strike-eligible units.

Not many have struck. In fact, just 242 notices of intent to strike were issued since 2000, which covers just 3.0 percent of all contracts. Of those, a mere 43 units, or just over 0.5 percent, actually struck. Likewise, the contracts that went to fact-finding totaled 1,477, or a mere 14.0 percent. Of those, only 219, or 2.0 percent, went to binding arbitration. Therefore, eliminating rights not threatened or used very often likely will not result in significant cost savings.

Real reform is the full repeal of Ohio's collective bargaining law, which was passed in 1983 by sheer Democrat force. Despite the left's attempt to paint repeal as a right-wing idea, no less a stalwart liberal-progressive as President Franklin Roosevelt himself opposed giving government workers the right to bargain, as the right itself is the cost-driving problem.

In states that permit government workers to collectively bargain, the average annual pay for state and local workers is $51,064 and $41,457, respectively.[13] In contrast, in states that prohibit government workers from collectively bargaining, the average annual pay for state and local workers is $46,025 (11 percent less) and $32,560 (27 percent less), respectively. If Ohio paid the 58,000 state workers on average $5,039 less, it would save taxpayers $292,262,000 per year. For local governments, the savings per year would be even bigger: $5,783,050,000 ($8,897 times 650,000 workers). Collective bargaining facilitates the explosion of government compensation costs and prohibits governments from making the painful, but necessary, decisions to rein in those costs.

For example, the thirty-three school districts in Cuyahoga County currently project an aggregated

12 State Employment Relations Board, Contract Data 2000–2010.

13 U.S. Department of Labor, Bureau of Labor Statistics, "State and County Wages," January 2011, at *http://data.bls.gov/tutorial/multi_screen/* (February 22, 2011).

CASE STUDY: CUYAHOGA COUNTY SCHOOLS

According to data provided by its 33 individual school districts, Cuyahoga County will face an aggregated deficit of more than **$1 billion** in 2015. However, by implementing a 10 percent cut to personnel costs and capping yearly raises at 3.2 percent, the deficit would only be **$114 million** in 2015—**a reduction of $929 million**.

DOLLAR FIGURES ARE IN MILLIONS

Calculations Based on Data Provided by the School Districts	**2010***	**2011**	**2012**	**2013**	**2014**	**2015**
Total Revenues	$2,172.5	$2,193.7	$2,103.0	$2,060.7	$2,010.5	$1,984.7
Total Personnel Costs	$1,686.3	$1,674.0	$1,744.5	$1,803.5	$1,865.1	$1,931.6
Total Expenditures	$2,210.0	$2,202.8	$2,284.0	$2,353.0	$2,426.6	$2,504.8
Surplus/Deficit	–$37.5	–$9.1	–$181.0	–$292.3	–$416.1	–$520.1
Beginning Cash Balance	$413.2	$375.7	$366.6	$185.6	–$106.6	–$522.8
Ending Cash Balance	$375.7	$366.6	$185.6	–$106.6	–$522.8	**–$1,042.9**
Personnel Costs as % Expenditures	76%	76%	76%	77%	77%	77%
Personnel Costs as % Revenues	78%	76%	83%	88%	93%	97%
Personnel Costs % Yearly Increase	1.0%	-0.7%	4.2%	3.4%	3.4%	3.6%
Revised Calculations	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Revised Personnel Costs		$1,517.7	$1,566.3	$1,616.4	$1,668.1	$1,721.5
Savings		$156.3	$178.2	$187.2	$197.0	$210.1
Revised Total Expenditures		$2,046.5	$2,105.8	$2,165.8	$2,229.6	$2,294.7
Revised Surplus/Deficit		$147.2	–$2.8	–$105.1	–$219.1	–$310.0
Revised Ending Cash Balance		$522.9	$520.1	$415.0	$195.9	**–$114.1**
Deficit Elimination						**–$928.7**

* Figures for 2010 are actual. Figures for 2011 through 2015 are projected.
Source: Ohio Department of Education, Ohio Schools–Five Year Forecasts, January 2011,

deficit in 2015 of $1.043 billion and expect personnel costs to absorb roughly 97 percent of projected revenues.[14] To eliminate or reduce this enormous projected deficit, those school districts will have to raise property taxes on the dwindling number of Cuyahoga County homeowners by over $1 billion. Alternatively, if an across-the-board 10 percent realignment adjustment is made to personnel costs for 2011 and future increases are tied to a 3.2 percent inflation rate, the $1.043 billion deficit shrinks to a far more manageable $114 million in 2015.

The aggregate deficit for all 613 school districts in 2015 is projected to be $7.6 billion, with personnel costs swallowing 96 percent of all revenues. For a district-by-district view, please see the Reports page on The Buckeye Institute Web site. Spending per pupil in Ohio's public schools increased by 98 percent from $5,311 in 1994 to $10,512 in 2008.[15] The single greatest driver of spending in our public schools is the compensation packages of teachers and administrators. Buying cheaper toilet paper and other cost-saving measures will not have much of an impact on the nearly $8 billion deficit projected in just five years.

As noted above, Ohio's state and local tax burden is already among the highest in America. If our leaders listen to those who advocate solutions that consist of little more than raising taxes (via outright tax hikes or eliminating tax breaks), then we can be sure that Ohio

14 Ohio Department of Education, Ohio Schools–Five Year Forecasts, January 2011, at *http://fyf.oecn.k12.oh.us/ViewForecast/* (February 17, 2011).

15 U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, at *http://nces.ed.gov/ccd*.

will remain in economic decline. During the ten-year period Ohio shed 612,700 net private-sector jobs and the tax revenues that came from those jobs, it only lost a net of 1,600 government jobs, thereby maintaining large government payrolls.

Assuming Republicans stick to their positions against raising taxes, why do some believe it is better to cut programs to vulnerable populations or children than it is to cut the pay of government workers? By strictly advocating for tax increases as the sole solution to Ohio's budget problems, left-of-center groups only ensure that the poor will be left taking a bigger cut to their programs than if government workers shared the sacrifice of adjusting to our new normal.

As "The Grand Bargain is Dead: The Compensation of State Government Workers Far Exceeds Their Private-Sector Neighbors" and "The Grand Bargain is Still Dead" highlighted, $2.3 billion in savings could be realized without a single government job being cut.[16] One of the scare tactics used when government compensation cuts are raised is that our failure to "properly" compensate government workers will result in them leaving government. Given the state of Ohio's economy—102,200 net private-sector jobs in 21 years—which jobs will they leave for in the private sector? If all government entities in Ohio cut compensation packages, there will be no greener grass to find in government.

One of the criticisms of the "Grand Bargain" report is that it failed to differentiate between educated workers with college degrees or higher versus less educated workers.[17] A study from a union-funded group concluded that educated public-sector workers in Ohio earn roughly the same as their peers in the private sector.[18] Not surprisingly, EPI issued four cookie-cutter reports in Ohio, Wisconsin, Michigan, and Indiana, where conservatives control both the legislature and the Governor's Office following the November elections. As background, the union-funded group's study excluded from its analysis all private-sector workers except those with college degrees or more who worked for companies with greater than 500 workers. The critique of our report can best be addressed by pointing out why the union-funded group's report is flawed.

First, using only those private sector workers at companies with 500 or more employees ensures that the comparison pool is the best compensated private sector workers in Ohio. Because companies with 500 or more employees have greater resources to hire, those entities can offer very attractive pay packages to attract the best and brightest workers.

With many Fortune 500 companies in the sample (Cardinal Health; Procter & Gamble; The Limited; Worthington Steel; JP Morgan Chase; etc.), the private sector salary data is skewed high, ensuring that any government comparison will come in below the sample. Large private sector companies are large because they have been successful. In contrast, government is not big because it is successful; in some ways, it is big because it is not successful, so comparing the two entities is really not appropriate.

With the focus on degrees, the inclusion of K-12 teachers and administrators renders the results highly questionable. Because many K-12 workers hold a mas-

16 Matthew Marlin, Jonathon Scott, and Kaitlyn Wolf (with Menu of Cost Savings by Matt Mayer), "The Grand Bargain is Dead: The Compensation of State Government Workers Far Exceeds Their Private-Sector Neighbors," The Buckeye Institute for Public Policy Solutions, July 2010, at *http://buckeyeinstitute.org/uploads/files/The%20Grand%20Bargain%20Is%20Dead(1).pdf* (February 17, 2011), and Matt A. Mayer, "The Grand Bargain is Still Dead," The Buckeye Institute for Public Policy Solutions, December 31, 2010, at *http://www.buckeyeinstitute.org/uploads/files/The%20Grand%20Bargain%20Is%20Still%20Dead.pdf* (February 17, 2011).

17 These criticisms came implicitly in the report "Redesigning Ohio," which was funded by the nine big chambers of commerce representing the eight large urban areas where the vast majority of government jobs reside (subsidized by the other eighty counties). Ohio's Metropolitan Chambers of Commerce and the Ohio Chamber of Commerce, "Redesigning Ohio: Transforming Government into a 21st Century Institution," December 2010, p. 32, at *http://www.ohiochamber.com/dococc/Policypolitics/-pdf/RedesigningOhioFINAL12-2010.pdf* (February 18, 2011).

18 Jeffrey H. Keefe, "Are Ohio Public Employees Over-Compensated?" Economic Policy Institute, EPI Briefing Paper No. 296, February 10, 2011, at *http://epi.3cdn.net/6ddeb152266bf6714f_6xm6b955l.pdf* (February 18, 2011). The author issued cookie-cutter reports making the same claims in Michigan, Wisconsin, and Indiana.

ters degree (62 percent or more) that has no external market value, comparing K-12 pay to private sector workers with masters degrees in big business—like MBA holders who are highly compensated—is not an apples-to- apples comparison. The improper comparison further skews the data to the benefit of public sector workers. An apples-to-apples comparison would compare public school teachers to private school teachers, which EPI knows would show an enormous pay differential benefiting public school teachers.

The teacher with a post-graduate degree also demonstrates the problem with focusing on degree holders. Studies show that holding a masters degree does not improve classroom performance, so taxpayers should not pay a premium for a degree that does not add value to the quality of their children's educations.

The degree focus also becomes problematic when one considers the incentive offering gold-plated compensation packages has on government. Because many people believe working for government, given all of the perquisites, is a plum job, degree holders routinely will apply for positions that do not require a degree, especially in a down economy. This trend increases the presence of degree holding government workers at lower paying jobs, which skews the government data downward (i.e., overpaying people will create a pool of "underpaid" over-degreed workers).

Next, the Employer Costs for Employee Compensation (ECEC) data fails to account for the full cost of benefits received by the public sector worker. Unlike a defined contribution plan used in the private sector that fully accounts for the benefit received (i.e., a 4 percent match from the employer), a defined benefit plan only accounts for the benefit received today (i.e., the 14 percent to 24 percent match) without accounting for the promised benefit received tomorrow.

Specifically, because the defined benefit plan promises the government worker a certain future return in excess of the actual amount contributed today, the ECEC data understates the benefit received because additional funds will be needed to meet the promised liability. This error also applies to the costs of health care provided in retirement.

Lastly, the report does not calculate the value of job security—according to the U.S. Bureau of Labor Statistics, the average private sector worker has a 20 percent chance of being fired or laid off in a given year, while the average public employee has only a 6 percent chance.

When these multiple issues are accounted for, the likelihood that public sector workers truly are compensated less than similar private sector employees is small.

A few additional questions illustrate why certain private-sector workers earn a pay differential (assuming it still exists once all government benefits and the intangible monetary benefit of job security and early retirement are added to the pot), using lawyers and doctors as examples.

First, upon graduating from law or medical school, what does the government lawyer or doctor do to establish a client base? Next, what are the costs associated with starting his law or medical practice, such as rent, supplies, support staff, and equipment? How much does he pay in malpractice insurance? How does he bill for his services and what is his realization rate for his billings (the amount he actually gets paid)? Finally, what does he do during lean times when he has few clients or when clients do not pay for long periods of time?

The answers for the government lawyer or doctor are simply: nothing. From the moment he starts his job with the government, all of those concerns are met with no effort on his part (plus he gets paid overtime). In stark contrast, his private-sector peer faces all of those issues from Day One. Another fundamental flaw of the studies comparing highly educated workers inside and outside government is the absence of accounting for the risk/reward element of the private sector. Someone who has taken little to no risk should never earn as much as the entrepreneur who puts out his own shingle and risks everything to build his practice. With risk comes reward—or, at least, it used to.

Lastly, the union-funded study totally (and conveniently) ignores the 70 percent of uneducated middle- and lower-class private-sector workers who

TWO-YEAR ESTIMATED STATE BUDGET REALIGNMENT SAVINGS

Compensation	Year One	Year Two	Total
Wages (19.73% across-the-board cut)	$639,889,878	$639,889,878	$1,279,779,756
Retirement (Reducing employer share from 14% to 4%)	$324,323,303	$324,323,303	$648,646,606
Health (Increasing employee premium from 17% to 23%)	$43,980,467	$43,980,467	$87,960,934
Sick Pay (Reduce from $1,541 to $395)	$70,038,044	$70,038,044	$140,076,088
Longevity (Eliminate)	$57,590,000	$57,590,000	$115,180,000
Total	**$1,135,821,692**	**$1,135,821,692**	**$2,271,643,384**

Source: Buckeye Institute calculations.

support over-compensated government workers with their tax payments (not to mention all of the educated private-sector workers at firms smaller than 500 workers). In the end, we stand firm behind our study that compared the median state government worker to his private-sector peer, especially knowing that many government jobs filled with degreed employees do not require a degree.

There is another, more vital, element that gets forgotten in the battle of reports: the amount of revenue government has to pay government workers. As previously noted, Ohio has lost over 600,000 net private sector jobs in the last ten year—jobs that drove revenue into government. At the same time, Ohio government has roughly the same number of employees who make a lot more than they did ten years ago. Regardless of who makes more, we cannot afford to pay what we are paying today and raising taxes even higher is simply not a viable answer.

Though painful for government workers, we must reform their compensation packages. The median state-government worker makes 24.6 percent more than his median private-sector peer. The median state worker also pays 6.0 percent less of the share of his health insurance premiums and receives almost four times more compensation for sick leave.

As New Jersey Governor Chris Christie recently remarked, sick leave is for when people are ill. Why do we allow government workers to bank unused sick leave for decades and then pay them out enormous sums when they retire? Just this month, the City of Columbus had to pay 77 Columbus police officers and firefighters who banked years of sick leave payouts as high as $239,829 and averaging $55,607, just for leave not used because those public servants were fortunate to have good health throughout their careers.[19] Cincinnati owes its government workers $93 million in banked leave.[20] Why not make leave a "use or lose it" component in government?

Finally, unlike the standard 4 percent 401(k) employer contribution in Ohio for private-sector workers, taxpayers pay from 14 percent up to 24 percent for government-worker retirement plans. As shown in the table above, realigning government workers to their private-sector peers would save roughly $2.3 billion in the next two years for just state workers. Similar realignment adjustments at the local level and in higher education would forestall or significantly reduce projected deficits, layoffs, tax increases, tuition hikes, and/or program cuts.

Even if the 6.2 percent Social Security employer cost is added, taxpayers would still save roughly $123 million per year by reducing the taxpayer share by 3.8 percent for state workers and even more for local government workers.

Lest one think that government workers remain the

19 Doug Caruso, "Unused Sick Time Fattens Retirement Checks," Columbus Dispatch (February 13, 2011).

20 Barry Horstman, "City to Pay Out $93M to Retirees," Cincinnati Enquirer, A1 (February 13, 2011).

EXAMPLE OF STATE-GOVERNMENT EMPLOYEE PAY PROGRESSION

Date	Pay Increase	Increase Per Hour	Hourly Rate	Percent Increase	Percent Increase Per Year	Yearly Salary
November 2001	Hired	—	$14.43	—	—	$30,014
April 2002	Step increase	0.42	$14.85	2.9%	—	$30,888
June 2002	Salary increase	0.59	$15.44	4.0%	7.0%	$32,115
April 2003	Step increase	0.56	$16.00	3.6%	3.6%	$33,280
2004	No step or salary increase	—	$16.00	—	—	$33,280
June 2005	Salary Increase	0.64	$16.64	4.0%	4.0%	$34,611
April 2006	Step Increase	0.64	$17.28	3.9%	—	$35,942
June 2006	Salary Increase	0.52	$17.80	3.0%	7.0%	$37,024
April 2007	Step Increase	0.76	$18.56	4.3%	—	$38,605
June 2007	Salary Increase	0.65	$19.21	3.5%	7.9%	$39,957
April 2008	Step Increase	0.90	$20.11	4.7%	—	$41,829
June 2008	Salary Increase	0.70	$20.81	3.5%	—	$43,285
October 2008	Longevity Increase	0.43	$21.24	2.1%	10.6%	$44,179
April 2009	Step Increase	0.96	$22.20	4.5%	—	$46,176
October 2009	Longevity Increase	0.52 (+.09)	$22.29	0.4%	4.9%	$46,363
October 2010	Longevity Increase	0.60 (+.08)	$22.37	0.4%	0.4%	$46,530
	14 increases in 9 years	**$7.94**	**$22.37**	**55%**	**6.1%**	**+$16,516**

Sources: Ohio Department of Administrative Services, Pay Data for Worker Doe, January 2011.

underpaid class of thirty years ago, the following example highlights how pay increases are injected repeatedly into the government compensation system. Another area for savings is to eliminate the hidden step and longevity increases government workers receive in addition to annual pay increases. These payments are nothing more than rewards for staying in government another year.

As shown in the table above, an example of a government worker in a position not requiring a college degree, hidden step and longevity raises significantly increase compensation costs even when pay increases are frozen. Outside of unionized companies, step and longevity increases are not available in the private sector and should be eliminated in Ohio.

As this real example illustrates, in nine years, the position experiences a whopping 55 percent pay increase due to overt yearly salary increases and hidden increases due to steps and longevity pay. This individual did not receive a promotion. In other words, all the increases are due to merely advancing through the system chronologically—six step increases, five salary increases, and three longevity pay increases.

In just nine years, the individual's highest three-year salary average went from $31,803 to $45,691, which would result in a first-year pension going from $20,990 to $30,156, a 44 percent increase and nearly as much as his first-year salary. If this individual retired at age 60, he would receive a lifetime pension of $681,225—and that is based on just his seventh, eighth, and ninth years of work, not his twenty-eighth, twenty-ninth, and thirtieth years of work.

To be clear, this example is not meant to denigrate the individual. He is merely doing what any Ohioan would do to provide for himself and his family. It is the system that must be reformed.

Because of these hidden elements involved in government compensation, all government entities in Ohio should have to publish the full projected costs of contracts, upon completion, including the costs of step increases, longevity pay, health care premiums, pension payments, pension pick-up payments, and every other specific cost contained in the contract. This requirement would bring far greater transparency to the true cost of government compensation packages from school districts to cities to the state. Consequently, government units could not hide behind making misleading statements that only mention the annual salary increases or claim a pay freeze that excludes step and longevity increases.

Whether you are a Democrat, Republican, Liberal, or Conservative, if you are in the private sector, you likely do not care if your child's teacher, township firefighter, city's police force, or Ohio Department of Administrative Services neighbor is part of a union or not. You want them to be treated and compensated fairly, but you also are confident that your elected representatives will do that with or without union pressure. More critically, you likely do care if those government workers are being compensated disproportionately to the private sector because of the resulting higher taxes you pay.

The fundamental reality is that failure to realign government compensation packages will only ensure that taxpayers and vulnerable populations pay higher taxes and suffer more program cuts, as government workers sail through Ohio's new normal with little to no negative consequences.

PRINCIPLE #4

Government Retirements Should Mirror What the Rest of Us Have

For the vast majority of Ohioans, the Social Security program represents the largest element of their retirements. In order to receive the full benefits of the Social Security program, private-sector Ohioans must wait until they are 67 years old. In stark contrast, state-government workers can retire with full pension benefits after just 30 years, making many able to retire when they are 52 years old (48 years old for fire and police personnel). With a life expectancy of 78 years, these young retirees will collect their pensions almost as long as they worked for government. Many of these retirees quickly come back into the system after "retiring" and engage in the practice of double-dipping—receiving two paychecks from government-funded sources.

Rather than maintain this fifteen-year gap, government workers should not be able to collect their pension benefits until they are 67 years old. This change would dramatically reduce the financial burdens of long retirements and would reduce the pension of the median state-government worker from $2.3 million to $1.1 million. This change would also significantly curb the double-dipping abuses rife with government workers, since they could not begin collecting their pensions until later even if they retired after thirty years.[21] Thus, they could be hired back by a government entity shortly after retiring, but would only receive one paycheck.

The current pension formula for state-government workers considers just the highest three-year salary figures to determine the yearly pension payout. This formula is entirely arbitrary. Changing the pension formula to reflect the 30-year pay average would reduce the first-year pension pay from $65,000 to $42,000.

The story of Joyce Beatty highlights the problems with this system. As a state representative, Beatty's highest three years were $88,193, $82,256, and $75,971. With these three years, Beatty's pension would have started out at $54,212 and totaled roughly $1,224,657 after 18 years. With her job change in 2008 to The Ohio State University in which she almost quadrupled her highest salary to $320,000 (a result largely unheard of in the private sector, especially in Ohio), by 2011, Beatty's pension payouts will change to an estimated pension of $211,200 and an 18-year pension of $4,771,008. This type of outcome is unsustainable and unfair.

21 For public safety workers who physically cannot continue working in that line of work, they could retire and enter the private sector in less demanding jobs. It just is not unreasonable given longer life expectancies for public safety workers to find other employment if they choose to leave their jobs. Private-sector workers in labor-intensive jobs face similar choices, as they cannot access Social Security until age 65 or 67.

29 GOVERNMENT MILLIONAIRES: PENSIONERS IN THE DEFERRED RETIREMENT OPTION PLAN (DROP) PROGRAM

	Three-Year Average Annual Salary	Base Pension	Pension Payment, Year 9	DROP Lump Sum Payment	First-Year Retirement Package
1	$110,708.49	$74,263.26	$92,086.44	$908,408.02	$1,000,494.46
2	$112,684.00	$74,151.71	$91,948.12	$908,810.35	$1,000,758.47
3	$117,557.71	$73,814.49	$91,529.96	$909,120.54	$1,000,650.50
4	$117,197.86	$73,957.71	$91,707.56	$910,399.51	$1,002,107.07
5	$103,733.48	$75,326.07	$93,404.32	$914,347.74	$1,007,752.06
6	$124,421.98	$74,653.19	$92,569.95	$924,010.88	$1,016,580.83
7	$119,726.96	$75,068.80	$93,085.32	$924,710.65	$1,017,795.96
8	$115,606.61	$75,381.29	$93,472.80	$924,749.79	$1,018,222.59
9	$107,180.56	$77,266.47	$95,810.42	$938,540.57	$1,034,350.99
10	$111,611.00	$77,882.16	$96,573.87	$948,969.49	$1,045,543.36
11	$116,977.06	$77,748.80	$96,408.52	$951,928.88	$1,048,337.39
12	$125,464.89	$77,424.38	$96,006.24	$955,361.29	$1,051,367.52
13	$128,565.58	$77,274.34	$95,820.18	$956,268.29	$1,052,088.48
14	$126,000.56	$77,622.64	$96,252.08	$957,984.55	$1,054,236.63
15	$124,350.58	$78,956.40	$97,905.94	$971,298.09	$1,069,204.02
16	$125,015.29	$79,303.45	$98,336.28	$975,664.82	$1,074,001.10
17	$128,851.98	$79,823.80	$98,981.51	$984,554.99	$1,083,536.50
18	$116,055.00	$82,584.74	$102,405.08	$1,004,375.64	$1,106,780.71
19	$101,396.49	$84,382.16	$104,633.88	$1,012,059.58	$1,116,693.45
20	$108,419.00	$84,111.46	$104,298.21	$1,014,874.26	$1,119,172.48
21	$127,700.87	$82,826.78	$102,705.21	$1,016,645.73	$1,119,350.95
22	$127,865.90	$86,424.56	$107,166.46	$1,056,366.43	$1,163,532.89
23	$135,698.01	$86,161.45	$106,840.20	$1,059,932.47	$1,166,772.67
24	$125,785.93	$87,396.06	$108,371.12	$1,065,339.57	$1,173,710.69
25	$136,638.12	$86,717.38	$107,529.55	$1,066,824.63	$1,174,354.18
26	$101,328.00	$89,629.68	$111,140.81	$1,069,738.97	$1,180,879.77
27	$125,821.00	$87,930.01	$109,033.21	$1,071,243.19	$1,180,276.40
28	$137,479.00	$98,696.17	$122,383.26	$1,199,314.98	$1,321,698.23
29	$149,217.98	$100,587.84	$124,728.92	$1,229,811.83	$1,354,540.76

Source: Matt A. Mayer and Mary McCleary, "A Final word on the DROP Program and Our Report," The Buckeye Institute for Public Policy Solutions (November 12, 2010).

As detailed in our report, "Dipped in Gold: Upper-Management Police and Fire Retirees become Public-Service Millionaires," another program ripe for elimination is the Deferred Retirement Option Plan (DROP) program for fire and police personnel. This program allows upper-level officers to retire as millionaires. Essentially, officers can enter the program for eight years during which their pension payments are placed in accounts for them with guaranteed annual returns of roughly 8 percent. When they finally retire, they receive lump sum payments from the accounts and their pensions are adjusted as if they were in their ninth years of retirement.

For all 3,802 DROP program participants, the average lump sum payout is estimated to be $546,187. When this average is combined with the average yearly pension payment, the result is in a first-year retirement payout of over $600,000. For seventy-six upper-management participants, the average lump sum payout is $903,700, with an average yearly pension payment totaling $91,398. This equates to a first-year payout of $995,098. As shown in the table above, 29 of those participants receive an average first-year payout of $1,094,993, with twelve receiving an average first-year payout of $1,181,480.

One final data point illustrates the gold-plated nature of government compensation based on searches of the state government pay data on our Web site (*www.buckeyeinstitute.org*). In 2009, the number of state-government workers paid more than $100,000 equaled 1,799 people (a more than 500 percent increase since 2003 when just 288 state-government workers made that kind of money). The pension obligation for this group equates to just under 3 percent of the state-government workforce—assuming a three-year highest salary average of only $100,000 and an average retirement of 18 years—totaling $2.68 billion. As more government workers migrate to these six-figure salaries, the pension obligation of the 58,000 state-government workers will reach dizzying heights.

For even bolder reform, moving state workers from defined-benefit plans to defined-contribution plans would save taxpayers money and eliminate unfunded pension promises. Maintaining the 10 percent employee contribution and reducing the taxpayer contribution to the 4 percent private-sector average still would provide government workers with a decent retirement. Assuming a 5 percent yearly return over the worker's life, the worker would have a nest egg of almost $1.7 million to use for retirement. The worker's contribution would equate to 26 percent of the total nest egg, which is a far greater share than the current 8 percent. Michigan switched to defined-contribution plans for new state workers back in 1997, and Democrat-led Illinois made the switch effective January 1, 2011. Surely Ohio's new conservative leadership can make this change in our state.

PRINCIPLE #5

Make Thinking Outside the Box More Than a Slogan

As former State Senator Gene Krebs of Greater Ohio has noted, Ohio's county lines were drawn for the business needs of the horse-drawn carriages era. Instead of staying wed to the past, we should aim to reconstruct Ohio for the future. After all, most Ohioans do not care under which government banner a good or service is provided. Rather, they just want the good or service to be provided efficiently and at the lowest possible cost.

Due to more than 3,700 taxing entities in Ohio, the overall state and local tax burden is too high. Whether or not you accept The Tax Foundation's ranking of Ohio as the state with 7th-highest state and local tax burden, few would argue that the total burden is just right or too low. In order to bring down the total tax burden, Governor John Kasich should call a statewide tax reform summit that includes representatives from the state, cities, counties, townships, villages, and school districts to discuss how Ohio's total tax burden can be reduced. It does Ohioans no good to eliminate a tax only to see it pop up somewhere else under a different name.

Despite the proliferation of computers, the degree of cost transparency in local government in Ohio is shockingly low. Because compensation package costs represent the single largest expense of local governments, knowing what those costs are is critical to evaluating requests for additional funds. To significantly raise cost transparency, every government jurisdiction should be required to publish its full yearly compensation costs by employee on a single, easily searchable Web site.[22] This requirement would involve simply emailing an Excel spreadsheet with existing payroll data to the Web site administrator. This basic tool would allow those living in a particular jurisdiction to see how

22 We make this recommendation knowing that such a site would compete with The Buckeye Institute Web site, which in only ten months experienced over 2.0 million searches of its salary and estimated pension data.

much government workers make and compare those costs to other jurisdictions to help determine if their leaders are making cost-conscious decisions.

A key topic for discussion must be local government consolidation. Although the "right" size of local government can be a difficult question, it is one we must wrestle with if we are to redesign Ohio for the 21st century. It does not take an expert to determine that the large variances in local governments present opportunities for savings.

For example, the populations of Ohio's counties range from a high of 1,283,925 in Cuyahoga County to a low of 14,221 in Monroe County. The largest school district has over 51,000 students (Columbus City) and the smallest has 15 students (Kelleys Island Local). In many cases, the tax base (be it income, property, or corporate) is too small to provide sufficient revenues to meet the operational costs of these jurisdictions. Even with government compensation package reform, the need for redundant costly upper management (county commissioners, superintendents, managers, etc.) is ripe for consolidation.

All of these government jurisdictions come with taxes. When villages, townships, and other taxing jurisdictions are added to the mix, the average residential property in Ohio has 25 different levies attached to it.

Is it really the most efficient and effective system to have such huge swings in population? Is there truly no way to combine some of the rural counties into larger, more populous counties, thereby allowing a large number of redundant government entities and workers to be eliminated? Can't the functions of some villages and townships be absorbed into cities? Does Ohio really need 613 school districts?

For example, combining two smaller school districts does not necessarily mean closing schools or losing mascots and years of tradition. It means having only one set of administrators instead of two, as existing schools and tradition would be maintained. Schools win sport state championships and academic awards, not the district in which they sit.

Because these types of changes involve very entrenched interests, accomplishing real change has been and will remain difficult. A recent example illustrates this problem. In February 2010, Greater Ohio and the Brookings Institution issued "Restoring Prosperity: Transforming Ohio's Communities for the Next Economy" that argued for government consolidation.

In response, the Ohio Association of School Business Officials (OASBO) chastised Greater Ohio and Brookings and released a review and critique report from the Education Tax Policy Institute (ETPI), which is funded by school districts and other local governments. The OASBO and ETPI did a very thorough job of citing alleged problems with "Restoring Prosperity," including directly and indirectly scoffing at the notion that government consolidation could actually result on cost-savings (without a decrease in service), as if the very idea is beneath consideration.

Ohio needs more problem solvers and fewer problem citers.

If voluntary agreement cannot be reached, then we should look to a commission like the Defense Base Closure and Realignment Commission that is empowered to study consolidation and propose a plan on which the legislature could only vote up or down, ultimately leading to a constitutional amendment, if necessary.

We conservatives often focus on the number of government employees and the need to shrink the size of government. This issue involves both what government does and how it does it. On the latter issues, one of the challenges in answering this question is the lack of hard data on the productivity of government workers.

A fairly easy way to gather data relevant to this question would be to conduct a twelve-month audit tracking the Web usage and the log in/out times of a statistically significant set of government workers. The aim of the audit would not be to target specific government workers for disciplinary action. Instead, the aim would be to randomly monitor 1,000 government workers each month to gather enough data to develop concrete findings on government productivity.

For example, if the audit showed that the sampled government workers spent on average 15 percent of each day on non-work related Web sites (YouTube, Facebook, ESPN, etc.) and worked a shorter day than expected, then, arguably, a 15 percent reduction in workers could be done without a decrease in service, if the remaining workers worked as expected. The converse, of course, is also true; namely, if government workers spent little to no time each day on non-work-related Web sites, then the argument for cutting workers would be based entirely on the "what government does" issue.

A secondary benefit of the audit is that it would identify the top 500 (or more) non-work related Web sites visited that the state could block from being accessed by government computers.[23] This act would reduce the time spent on Web sites by government workers and increase productivity.

Many other issues should be placed on the table for outside the box thinking.

In November, we released our "Smart on Crime: With Prison Costs on the Rise, Ohio Needs Better Policies for Protecting the Public" report that surprised many people, as it contained recommendations to reduce criminal justice costs and improve offender outcomes that most conservatives have heretofore not supported for fear of being labeled "soft on crime." The data shows that we have safe, cost-effective alternatives to building more prisons.

On the issue of prevailing wage, the lack of data is deafening. To get more data that will allow policymakers to properly determine if such an antiquated requirement is good for Ohio, all government contracts in which prevailing wage is used, the contractor should have to send a final cost chart to the appropriate state agency that notes the actual labor costs of the contract and the estimated labor costs had prevailing wage not been in effect. This data will allow us to estimate the amount of taxpayer funds that could be saved by elimination of the prevailing wage requirement.

Another area that is ripe for outside the box thinking is higher education. Ohio has 13 publicly funded four-year colleges and universities and another 23 public community/technical colleges.[24] The duplication and waste inherent in such brick-and-mortar establishments is enormous. We must ask ourselves: Can we teach students more effectively and efficiently by leveraging technology?

Despite the allure of Nobel prizes and the dream that research and development (R&D) will lead to the next big thing, taxpayers, parents, and students expect public higher education to excel at its primary mission: educating students. Too often today, educating students takes a back seat to R&D, publishing dust-collecting papers (e.g., "Colonialism and Human Rights, A Contradiction in Terms? The Case of French West Africa, 1895-1914"). In some cases, it takes a back seat to servicing consulting clients that professors line up to supplement their relatively high incomes.

Every professor regardless of rank should be spending a majority of his time in the classroom and mentoring students.[25] Beyond the savings from increased productivity (read: fewer professors are needed if all professors spent a majority of their time in the classroom) and from a greater emphasis on students and lesser emphasis on earning tenure or consulting, other outside the box thinking can significantly reduce the cost of Ohio's higher education infrastructure.

For example, why does each public college or university need to teach the same courses with different professors? As the table on the next page shows, each school teaches similar history courses, each with its own professor. Why not identify the best history professor among the professors teaching the basic history classes and have that professor teach at all schools? How, you ask? The same way private-sector groups like BarBri have taught law students to pass the bar exam—with ba-

23 Anecdotally, blocking Web site access is already done, but it is done on an ad hoc basis. For example, during a meeting with former Secretary of State Jennifer Brunner, I tried to access The Buckeye Institute Web site to show her our Better Days Ohio data tool, but her office had blocked access to our Web site. Needless to say, it provided for a humorous moment during the meeting.

24 This list does not include the Northeastern Ohio University Colleges of Medicine and Pharmacy, as that school is not a general education school.

25 Later this year, The Buckeye Institute will publish a report on the time spent by most professors actually teaching students.

BASIC HISTORY CLASSES OFFERED AT OHIO'S COLLEGES AND UNIVERSITIES

College	Class	Summary/Notes
The Ohio State University	151: American Civilization to 1877	The course will consider the significant events and personalities that shaped American history from the establishment of the first permanent English settlement in 1607 through the period of Reconstruction following the Civil War.
University of Akron	250: United States History to 1877	Historical survey from the Age of Discovery and North American colonization through the creation of the United States to the Civil War and Reconstruction.
Bowling Green State University	2050: Early America	Selected constitutional, intellectual, political and social developments that defined and shaped America between its first European settlement and the end of Reconstruction.
Central State University	2201: History of the U.S. to 1877	The origins of society in North America will be examined with emphasis on themes such as slavery, native removal, regional economic growth and development, national formation, independence, compromise, expansion, sectional conflict, international war and conflict, African and native American resistance and war, and finally civil war and reconstruction.
Cleveland State University	111: United States History to 1877	A study of the settlement of the Colonies and the transplanting of European institutions to the Western hemisphere, the achievement of American independence, the formation of the American government, the beginnings of industrialism, and the social and political conflicts leading to the Civil War.
University of Cincinnati	110: American History to 1848	Course surveys the major social, political, and economic developments of the United States for the time period indicated (in this case through 1848).
Kent State University	12070: History of the United States: The Formative Period	A survey of United States history through 1877.
Miami University	111: Survey of American History	Survey of the interplay of forces that have brought about evolutionary development of American economic, cultural, and political history from 1492 to the present. A functional and synoptic treatment of America's great historical problems.
Ohio University	200: Survey of United States History, 1600–1865	A survey of American history from colonial origins through the Civil War. The major political, social, cultural, and economic developments are discussed.
Shawnee State University	1110: American History to 1865	Survey of United States history from the conquest and colonization of the New World to the origins and outcome of the American Civil War.
University of Toledo	2010: America to 1865	The development of the United States from its Native American and immigrant roots through the Civil War.
Wright State University	211: American Civilization to 1877	Thematic survey of events, forces, groups, and individuals that contributed to and helped to shape an American civilization on the North American continent. Colonial foundations to 1877.
Youngstown State University	2605: Turning Points in U.S. History 1	Key episodes in the social, economic, political and cultural developments of the United States to 1877, exploring how diverse peoples shaped the growing nation.

Source: Information provided by individual universities.

sic and widely available technology via online learning.

This approach will not work in some fields, but in many lecture courses it could be the method of teaching, allowing all students to learn from the best professors in Ohio.

Similarly, does Ohio really need five taxpayer-funded law schools (The Ohio State University, University of Cincinnati, University of Akron, University of Toledo, and Cleveland State University)? Ohio also has four privately funded law schools (Capital University, Case Western University, University of Dayton, and Ohio Northern University). Of the five, only Ohio State is ranked among the top fifty programs in America, coming in at thirty-fourth.[26] Cincinnati is ranked fifty-sixth, and the other three public law schools fall outside of the top 100 law schools.

With the loss of businesses in Ohio over the last decade, there are a declining number of legal jobs available for Ohio's law school graduates. The jobs that are available are paying less than just a few years ago. This environment makes it harder than ever for the yearly law school graduates to find jobs and begin paying back their law school loans.[27] Even the highest ranked school in Ohio, Ohio State, is desperately trying to find jobs for students with new intern programs aimed at corporations. Perhaps we should eliminate the lower performing public law schools so taxpayer funds are not used to exacerbate the problem of too many lawyers.[28]

This type of analysis applies with equal force to other higher education programs.

As the above examples indicate, there are many areas across government entities that present opportunities for reform. The key is for our political leaders to look for those opportunities and then seize them, regardless of the push back from the entrenched interests eager to maintain the status quo.

PRINCIPLE #6

Demand the Federal Government Respect Our Ability to Get Things Done

As Michael Waddoups and David Clark proposed almost a year ago:

> *Let's select a few programs—say, education, transportation, and Medicaid—that are managed mostly by Utah's government, but with significant federal dollars and a plethora of onerous federal interventions and regulations. Let Utah take over these programs entirely. But let us keep in our state the portion of federal taxes Utah residents pay for these programs. The amount would not be difficult to determine. Rather than send this money through the federal bureaucracy, we would retain it and would take full responsibility for education, transportation, and Medicaid—minus all federal oversight and regulation.*[29]

Waddoups and Clark are spot-on.

In our report, "Crushing Weight: National Health Care Law Threatens to Make Medicaid an Unsustainable Burden for Ohioans," we note the unfunded mandate elements that will drive Ohio into increased budget deficits. With the coverage requirements (both who and what) in the American Recovery and Reinvestment Act ("Stimulus Act") and the Patient Protection and Affordable Care Act ("ObamaCare"), Ohio's hands are largely tied in making decisions to bring the

26 U.S. News and World Report, "Education Grad Schools," at *http://grad-schools.usnews.rankingsandreviews.com/best-graduate-schools/top-law-schools* (February 11, 2011).

27 Nathan Koppel, "Bar Raised for Law-Grad Jobs," The Wall Street Journal, May 5, 2010, at *http://online.wsj.com/article/SB10001424052748704866204575224350917718446.html* (February 17, 2011).

28 Full disclosure: I am a 1997 graduate of Ohio State's law school. That said, I am reformed, and have been out of the law practice twice as long as I was in it. Thus, I am not promoting Ohio State out of loyalty.

29 Michael G. Waddoups and David Clark, "A Modest Proposal to the Federal Government: Let Utah Do It," The Washington Post, A17 (February 19, 2010).

cost of Medicaid down.

After seventy-plus years of centralization in Washington, it is time we take seriously the idea of decentralization and federalism. It goes without saying that any money Ohio receives from Washington is really just our own money coming back—minus an "administrative fee" to pay for the bureaucracy—to us with strings attached or unfunded mandates. Does this really make sense (as if it ever did)?

We must restore the balance of power between the federal government and the states. For too long, the states have lacked a check on the power and arrogance emanating out of Washington. From the New Deal Era forward, states and the leaders in them became dependent on the spoils system designed and propagated Inside the Beltway. Instead of putting their hands up and telling the federal government "Enough!," governors became accustomed to putting their hands out and, in Oliver Twist fashion, asking "More, please."

Transparency and accountability are far more achievable in statehouses across the United States than in Washington. Even my friends on the Left have conceded that they can petition the government and get positive change far more easily at the state level than at the federal level. What do we have to fear by simply keeping Ohio taxes in Ohio and running our own programs without interference from the federal government? We can take care of our vulnerable populations, educate our kids, and maintain our infrastructure in a manner we Ohioans deem best. We do not need a bureaucrat in Washington to tell us how.

If America can reinvigorate the principle of federalism and states can once again become the locus of government power over our lives, then we will see fifty frontiers for change and reform on issue after issue. These "laboratories of democracy" can find best practices and allow states to compete to provide the best goods and services at the lowest cost.[30]

We strongly encourage Governor Kasich to become a leader in pushing back on Washington and once again getting the power over our lives shifted back to Columbus.

30 The idea that federalism would result in a "race to the bottom" is, frankly, insulting. If a state guts its programs and provides inferior goods and services, such as schools, roads, and trash pick-up, its citizens will either "vote the bums out" and get better leaders who meet their needs or "vote with their feet" and move to a state with better goods and services. The failure of urban schools is a prime example of this voting with their feet activity, as parents of all racial backgrounds move to the suburbs with higher performing public schools. Competition does not reduce quality; rather, competition increases the quality of goods and services. For an example of this reality in practice, look no further than the automotive industry and the competition to build the highest quality car at the most affordable price.

About the Author

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Mayer was a senior official at the U .S. Department of Homeland Security (DHS) where he provided policy and operational advice as the Counselor to the Deputy Secretary. Mayer came to DHS from Colorado where he served Governor Bill Owens as the Deputy Director for the Department of Regulatory Agencies. Mayer co-developed Colorado's Regulatory Notice system that utilizes electronic mail to notify stakeholders of all proposed regulations before those regulations become final. The Regulatory Notice system earned the Denver Business Journal's 2003 Innovative Product/Service Award for making government more transparent and accountable.

Mayer was a 2007 Lincoln Fellow with The Claremont Institute for the Study of Statesmanship and Political Philosophy and a 2006 American Marshall Memorial Fellow with the German Marshall Fund of the United States. In September 2005, The Ohio State University Alumni Association awarded Mayer the William Thompson Oxley Award for early career achievement. He has published a book; written articles for law reviews, public policy journals, and newspapers; given testimony to the U.S. Congress and to the Texas and Ohio legislatures; and appeared on Fox News, C-SPAN, ONN, and other major media outlets. Mayer graduated cum laude from the University of Dayton with a double major in Philosophy and Psychology, and received his law degree from The Ohio State University College of Law.

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The Buckeye Institute for Public Policy Solutions is a 501(c)(3) research and educational institution whose mission is to frame the policy debate in Ohio by researching relevant, data-driven solutions to Ohio's most pressing public policy issues. We focus on the issues of economic freedom and competitiveness, job creation and entrepreneurship, and government transparency and accountability.

Our vision is to build a revitalized Ohio that ranks among the top ten states in high household wealth, low taxation, and low government costs.

Nothing written here is to be construed as an attempt to aid or hinder the passage of any legislation before the Ohio Legislature.

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Six Principles for Fixing Ohio
Matt Mayer

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