Policy Matters Ohio

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Testimony of Amy Hanauer, Executive Director, Policy Matters Ohio
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Chairman Uecker and members of the House Committee on Commerce and Labor, thank you for giving me the opportunity to testify here today. I'm the executive director of Policy Matters Ohio, a non-profit, non-partisan policy research institute, on the web at www.policymattersohio.org.

Good public services with decently-compensated, secure employees are a necessary, indeed key, ingredient to a thriving state economy.

Policy Matters has grave concerns that Senate Bill 5 will result in lower-quality public services, less flexibility for employees and managers to solve problems in the public sector, fewer smart voices being able to contribute to creating good public workplaces, and an economy that works less well.

Others here are much better equipped than I am to analyze this bill and describe exactly how it curtails collective bargaining and how that is problematic for contracts. I will instead briefly make several key points:

1. Public sector workers are not overpaid, indeed quite the opposite. For documentation of the extensive research on this topic, I refer you to the testimony I delivered in the Senate committee. The summary is that, controlling for hours worked and education, public workers make more than 3 percent less than private workers in Ohio, including all forms of compensation. That is largely because public sector workers are more highly educated, on average, than private sector workers – with more than half possessing at least a four-year college degree and about a quarter possessing either a masters, professional or Doctorate degree.
2. In part because of the high education levels that we require in the public sector, many public workers are paid decently, though not luxuriously, and paying workers decently helps local economies. In fact, the last thing we'd want, during a good or bad economy, is to badly reduce compensation of workers doing essential tasks.
3. One benefit that the public sector provides, in addition to providing crucial services that we all need, is that it is more stable than the private sector and less subject to boom and bust. This helps to stabilize the rest of the economy, so that when there are large layoffs, the continued adequate compensation of public workers reduces the downward spiral in the economy. The last thing we would want to do is make the public sector more inclined to vary with the business cycle.
4. Another thing that the public sector does, of course, is to provide essential services that the private sector does not deliver – safety services, fire protection, services for struggling families, education, and public goods. Giving workers a say in how these services get delivered, giving them a way to voice concerns, and preserving their voice in the work place ensures better work quality and better services. A puzzling aspect of the bill is the reduction of, for example, teachers' ability to bargain on class size or firefighters' ability to bargain for better safety equipment. That seems odd. If teachers are, at times, willing to say "I'd rather have a class size I

can manage than a pay increase", why would we want to thwart that? If firefighters would rather have safety equipment than higher benefits, why would we block that? They, as frontline workers, are better equipped than others in the community to assess the forces that make their workplaces function better.

5. Reducing compensation and say in the workplace will ultimately reduce resources in local economies and make public work less attractive, causing people to leave, reducing the quality of education, higher education and other services we deliver.
6. Finally, of course, what Ohio really has is a revenue problem. There are two reasons for this.
    a. We've drastically reduced the revenue that state government is taking in. We did that first by reducing taxes on corporations and the wealthiest. These tax reductions are responsible for half of the current budget shortfall.
        i. We've reduced income taxes, particularly for the wealthiest. In fact, the 2005 income tax cuts gave the wealthiest one percent of Ohio families, those already earning more than $319,000 annually, enough back in income taxes that they could buy a brand new car every year – more than $10,000 a year. For low-income Ohio families, those eking by on less than $17,000 a year, they likely didn't notice their tax reduction – it was small enough that they could purchase just half a tank of gas – about $19.
        ii. The business share of Ohio state and local taxes has fallen from almost 40% in 1976 to less than 30% today. A family of four at the poverty line pays nearly as much state income tax as a business with $1 million in receipts pays in Commercial Activity Tax
        iii. Ohio allows more than $7 billion a year in exemptions, credits and deductions. For example, no sales tax is paid when a company hires a lobbyist; Wealthy individuals who buy shares in jet aircraft pay little sales tax on their purchase; Payday lenders pay a lower rate than banks. Many of these have gone unexamined for decades.

    b. The other major source of our revenue crisis is the recession that has reduced tax revenue. And of course the recession was caused not by public sector workers, but by excessive deference to the private sector – deregulation, allowing bad loans to be aggressively marketed, not having regulators in place to oversee those loans. To have a less recession-prone economy, we need not less government, but more.

We can afford to tax the wealthiest and corporations more, because the gains in our economy over the past generation have gone overwhelmingly to the wealthiest. Between 1948 and 1979 the richest 10% accounted for a third of average income growth – matching their share in 1948 and keeping the income distribution stable for these three decades. In contrast, between 1979 and 2007 the richest 10% accounted for a full 91% of average income growth. The top 1% alone captured 37% of the growth in the economy.

Looking at this in another way, between 1947 and 1973 productivity and median family income grew directly in tandem, each by about 104 percent nationally. But between 1973 and 2005, productivity grew by more than 105 percent, while family income grew by less than 31 percent nationally. And in the last five years of that period, 2000-2005, despite a 16.6 percent increase in productivity, median family income actually fell by 2.3 percent in the United States.

In conclusion, the best way to solve Ohio and America's economic problems is by maintaining the strong, investment-driven public structures that enable us to deliver high-quality education, good public services, and reasonable regulation, and to maintain the good public infrastructure that families, communities and businesses need to thrive. Maintaining a voice for public workers, as well as adequate compensation for them, improves the quality of services and stabilizes our economy. Such compensation and services are easily affordable, simply by restoring tax rates that we had during high growth periods and insisting that those who most profit from our economy contribute to its maintenance.