CUTBACK MANAGEMENT AND PUBLIC PERSONNEL PROCESSES: EFFECTS ON COLLECTIVE BARGAINING OUTCOMES

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Introduction

This paper examines the relationship between cutback management and public personnel processes in local government. First, I shall discuss some of the reasons why local governments are now in the position of having to cut back and why public employees are prime targets for the cuts. Second, I' shall explore some of the institutional obstacles standing in the way of targeting personnel cuts. Third, I shall address the effects that cutback management has had on public sector collective bargaining outcomes in recent years. The latest evidence strongly suggests that the fiscal contraction taking place in the local government sector has moderated wage increases and has even led to substantial layoffs of municipal workers. This evidence contradicts the once prevalent view--held not even ten years ago--that public employees are virtually capable of "setting" their own wages without fear of job losses.

Reasons for Cutback Management

The reasons for having to cut back are manifold. First, the chief source of local government revenues--the real property tax--does not readily respond to the increases in income that accompany inflation, while inflation raises the costs to local government of providing services. Second, the States control the maximun tax rate their local government may legally levy. Third--and this the most recent and renowned reason for having to cut back--voters in juridictions across the country have elected to curb taxes via constitutional limits on their governments' revenue raising authority."

Mayor Wes Uhlman of Seattle, Washington summed up the growing problem in this way:

> The cities of this nation face very serious financial problems. New York has been the symbol of that, but it does not stand alone. In talking with my fellow mayors, I find that many of them face the very same problems which (sic.) we face in Seattle - rapidly rising inflation, militant demands from citizen groups for services and facilities, *higher and higher wage demands from our public employees*, and, of course, a very limited, inelastic, and insufficient tax base.[1] [emphasis added]

Thus, local government officials recognize a need to cut back. A natural target is public personnel. After all, cities typically spend 65 to 70 percent or more of current expeditures on personal services, defined by the Census as the "amounts paid for

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[1] Wes Uhlman, "Two Mayors and Municipal Employee Unions: Seattle," in *Public Employee Unions: A Study of the Crisis in Public Sector Labor Relations*, ed. A. Lawrence Chickering (San Francisco: Institute for Contemporary Studies, 1976), p. 79.

compensation of city officers and employees which consists of gross compensation before deductions".[2] In other words, if one were also to include the amounts that cities spend on fringe benefits, one would find that the percentage of total current expenditures devoted to employee compensation is rather greater than 70 percent.

Recently, in fact, there are claims that the level of indirect compensation of public employees, hidden in the form of fringe benefits, is rising. According to the economist, Daniel Orr, "In the case of public employment,... increases can be either direct or hidden; earlier retirement with high benefits, or longer vacations and shorter workweeks are respectively hidden and direct forms of employment increases.[3]

To summarize, local governments in this country are experiencing financial stress. Their officials recognize the need to make budget cuts. A natural place to cut is public employment.

Obstacles to Cutback Management

Recognizing a need and meeting the challenge effectively are two very different propositions. On the one hand, a contracting budget requires cutting back. On the other hand, there are institutional obstacles, which made it difficult to implement cutbacks. As Charles H. Levine has observed:

> Cutting back on organization involves making hard decisions about who will be let go,... [but] ... Public organizations are confronted with professional norms, civil service procedures, veteran's preference, affirmative action commitments, and collective bargaining agreements which constrain the ability of management to target cuts.[4]

Collective bargaining, in particular, limits management's discretion in implementing layoffs. For example, the City of Syracuse, New York, wanted to cut back its blue collar workforce by 33 employees in 1977. This intention was revealed to the employees' representatives at the commencement of contract negotiations. The union was, of course, dissatisfied with the proposed layoff of what amounted to roughly 6 percent of its membership. Moreover, most of the targeted layoffs were in the City's Department of Public Works, which happens to be the department employing the majority of the blue collar workers. Hence, in order to avoid the unpopular prospect of mass layoffs, the union agreed to a considerably smaller amount than usual wage increase.[5] The implications of a settlement such as this are at least twofold. First, it demonstrated that there is a trade-off between wage increases and public sector employment. Second, in the long-run it could mean that public sector wages will decline relative to private sector wages.

Civil Service and Merit System rules and regulations also constrain cutback management efforts.[6] For example, the public employer is generally barred from

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[2] See: U.S. Department of Commerce, Bureau of the Census, *City Government Finances in (Year)*, (Washington, D.C.: U.S. Government Printing Office, year).

[3] Daniel Orr, "Public Employee Compensation Levels" in *Public Employee Unions: A Study of the Crisis in Public Sector Labor Relations*, ed. Chickering, p. 138.

[4] Charles H. Levine, "More on Cutback Management: Hard Questions for Hard Times, "*Public Administration Review*, Vol. 39 (March/April 1979), p. 179.

[5] See: Beth Walter Honadle, "Collective Bargaining and Public Employee Compensation: A Case Study of Blue Collar Wage Determination in Syracuse, New York, "unpublished Ph.D. dissertation, Syracuse University, 1979.

[6] In fact, they also make it difficult to *attract* new, qualified employees by *increasing* the entry level wage rate in response to changing economic conditions.

lowering the entry level wage rate for a particular occupation when labor market conditions are such that the employer is able to hire all of the qualified applicants it seeks at a wage rate lower than the current one being offered.

Seniority privileges, tenure provisions, contractual obligations, and the like may also serve to limit the discretion the public employer has to lay off particular employees. Reductions in force, for instance, are usually in order of "last hired, first fired."

Also, State laws may unduly restrict the "scope of negotiations," the range of items over which employer and employee are legally required to bargain. A Michigan State law setting a maximum duty week for municipal firemen and a Pennsylvania statute forbidding combined police-fire departments are examples of ways in which potentially negotiable subjects are excluded from the scope of bargaining. One researcher interpreted the effect of such laws in this way:

> Laws of this kind place many local governments, particularly smaller communities, in a Procrustean bed. These municipalities are obligated to bargain over wages and hours, yet uniform state laws fundamentally weaken their negotiating position by creating mandatory high-cost requirements without the freedom to trade cost reductions in one area of new expenditures in another.[7]

In other words, by legislating municipal workers' terms and conditions of employment, the States may limit local government management's flexibility to negotiate lower cost settlements.

To summarize, local officials who recognize the financial need to cut back in the area of public personnel face obstacles on the path to reduction. These obstacles were erected by past agreements, State laws, unions, civil service procedures, and merit systems. Despite such institutional barriers, public managers have made substantial reductions in recent years.

Cutback Management and Collective Bargaining Outcomes--Recent Experience

A decade ago public sector collective bargaining was still in its infancy. There was still some of the initial apprehension over giving public employees a larger role in the determination of their wages. Two outspoken critics of public sector collective bargaining were Yale law professors Harry H. Wellington and Ralph K. Winter, Jr.. They wrote:

> ...[T]he principal issue of public employee unionism is the distribution of political power among those groups pressing [budgetary] claims on government...We believe that...there are other claimants with needs at least as pressing as those of the public employees. Such claimants can never have the power the unions will win if we mindlessly import into the public sector all of the collective bargaining practices developed in the private sector. Make no mistake about it, government is *not* [emphasis in the original] "just another industry."[8]

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[7] Charles M. Rehmus, "Constraints on Local Governments in Public Employee Bargaining," in *Public Sector Labor Relations: Analysis and Readings*, David Lewin, Peter Feuille, and Thomas A. Kochan (Glen Ridge: Thomas Horton and Daughters, 1977), p. 72.

[8] Harry H. Wellington and Ralph K. Winter, Jr., *The Unions and the Cities* (Washington, D.C.: The Brookings Institutions, 1971), p. 202.

As time went on—and the cities moved deeper into financial chaos—it seemed that public employees were not as inviolable as Wellington and Winter, among others had contended. David Lewin describes the public employer response to changing economic conditions:

> Mountain economic difficulties have changed the political climate within which public sector labor relations take place. In the new climate, the access of organized public employees to the political process diminishes,...and a more vigorous search is pursued for alternatives to public services...
>
> These developments suggest that public sector labor relations are not totally immune from market forces....[9]

Others have suggested that the changed economic conditions have ushered in a new "era" of public sector labor relations. This is what Kochan has termed "second generation bargaining" and what Horton has characterized as bargaining in a *re*distributive as opposed to a distributive, prosperous environment.

Specifically, Horton suggests that "During a period of economic scarcity, it may be that collective bargaining in the public sector may function more like the (assumed) competitive model of private sector bargaining that it does during a period of economic prosperity."[10]. As evidence of this trend, Horton points to the substantial manpower reductions among firemen, police, sanitationmen, and teachers that New York City experienced in the wake of its fiscal "crisis."

In sum, recent evidence indicates that personnel cuts can and do occur despite the institutional obstacles previously mentioned. Yet, the way in which cutbacks are managed has implications for recruitment, promotion, and turnover. Also, by trading indirect benefits such as paid vacations, holidays, and the like, for direct wages or salaries, a manager may only be forstalling the inevitable cutback imperative.

Further, it should be remembered that staying within one's budget is just one among several other personnel management objectives. For instance, alternative settlements may cost the public employer the same amount of budget dollars over the life of the contract. However, in choosing among the alternatives, the pros and cons of each option must be weighed in view of the employer's other objectives and goals.

Exhibit 1 illustrates the relative advantage of reaching settlements that increase employees wages by a fixed percentage of, say, 4 percent (Contract II) even though granting an increase of 12 cents per hour (Contract I) may have the same impact on the employer's budget total. The problem with the Contract I type of settlement is that it serves to compress the among-grade wage differentials over time.

Such compression of the internal wage differentials is undesirable in two respects. On the one hand, it makes the higher grades less and less attractive to personnel seeking advancement. That is, in relative terms the occupants of lower grades gain *more* under a Contract I scheme. The other major disadvantage of the Contract I pattern is the effect it can have on relative wages vis-a-vis the private sector or other public sector wages.

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[9] David Lewin, "Collective Bargaining and the Right to Strike," in *Public Sector Labor Relations: Analysis and Readings*, Lewin, *et al.*, pp. 161-62.

[10] Raymond D. Horton, "Economics, Politics and Collective Bargaining: The Case of New York City" in *Public Sector Labor Relations: Analysis and Readings*, Lewin, *et. al.*, p. 216.

EXHIBIT 1

ALTERNATE TWO-YEAR WAGE ADJUSTMENTS OF EQUAL COST TO PUBLIC EMPLOYER

Contract I

Grade level	Original entry level wage rate	Plus 12 cents	Added 7 cents	Percentage increase, original to final wage rate
	----------Dollars----------			----------Percent----------
1	1.00	1.12	1.19	19
2	2.00	2.12	2.19	10
3	3.00	3.12	3.19	7
4	4.00	4.12	4.19	5
5	5.00	5.12	5.12	4
total hourly wage rate bill rate overall percentage increase in cost:	15.00	15.60	15.95	7

Contract II

Grade level	Original entry level wage rate	Plus 4%	Added 2%	Percentage increase, original to final wage rate
	----------Dollars----------			----------Percent----------
1	1.00	1.04	1.07	7
2	2.00	2.08	2.13	7
3	3.00	3.12	3.19	7
4	4.00	4.16	4.25	7
5	5.00	5.20	5.31	7
total hourly wage rate bill and overall percentage increase in cost:	15.00	15.60	15.95	7

SOURCE: Constructed by author.

Conclusion

This paper has attempted, in a non-technical way, to show why local governments are now in position of having to make cutbacks. Briefly, it is because they have a relatively inelastic tax base which cannot keep pace with the inflationary pressures on the budget and because voters are resisting increased expenditures. Public personnel alone represent approximately 70 percent of the typical city's budget. Therefore, cutbacks are naturely affecting personnel.

The analysis showed how cutback management has affected the tradeoff between employment and wage increases in the new generation of public sector bargaining. It also showed why the way the cuts are managed is important for promotion, recruitment, and retention of public employees.