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The Source of State Government Budget Difficulties across the US

The latest political fad is to blame the budget difficulties at both the federal and state levels on government employees, in particular on their wages, benefits, and right to bargain collectively.

There is something massively disorienting about this picture because it involves a distorted rewriting our recent economic history and the basic facts about government employment.

Federal, state, and local government budgets are under stress right now because of the financial collapse that triggered the Great Recession. As financial markets melted down and housing values plummeted, financial and construction workers were laid off wholesale, households stopped spending as much money and started saving so that they had some financial cushion if their family got caught up in the cascading layoffs. Faced with a drop in consumer spending and tight credit markets, businesses shelved expansion plans and did the opposite, laying off workers throughout the economy. Business profits tumbled, wage payments shrank, capital gains disappeared and were replaced with capital losses. The flow of tax revenues to federal, state, and local governments declined dramatically.

But governments still had to meet their usual obligations to put police on the streets, firefighters in fire stations, and teachers in schools. The federal government continued to face the cost of two wars and the world's mightiest military force spread across the globe. Local governments still had to plow the snow and repair the roads.

In addition governments at all levels faced the increased costs associated with supporting the unemployed, coping with rising poverty, hunger, and homelessness and helping communities and families weather the worst economic decline since the Great Depression, 70 years ago.

It was those shrinking government tax revenues and stable or rising demand for government services that created the budget problems that plague governments at all levels.

It was not the wild spending of liberals or the wages and benefits of government workers who created the current budget problems. When the last Democratic president left office in 2000, the federal budget was running a surplus and most state government budgets were being balanced. It was not wild liberals who insisted on fighting two wars and expanding Medicare benefits while dramatically cutting taxes. It was a conservative Republican, George W. Bush. Instead of asking us to sacrifice to fund those wars and expanded benefits by paying higher taxes, he cut our taxes, started running massive deficits, and insisted that the most patriotic thing for citizens to do was to go shopping, assumedly using their credit cards.

Meanwhile, the deregulation fever spread and the economy lurched from one speculative bubble to another. We were all going to get rich, not by making more or better products, but by investing money in more and more risky financial gambles. The Las Vegas casino became our new economic model. The outcome was the near collapse of the nation’s and the world’s financial system and almost a repeat of the Great Depression. Instead, we “merely” got the Great Recession, the economic pain of which is likely to be with us for at least two more years.

It was not overpaid school teachers or police officers who brought this on us. It was outrageously overpaid financial speculators and corporate CEOs. Strangely enough, I do not hear Republican demagogues urging that the government take action against the real culprits behind the financial collapse and resulting Great Recession. The people who became hundred-millionaires in their high-stakes gambling with our livelihoods and homes go unmentioned. The fact that they are back at work wheeling and dealing and raking in their outrageous salaries, bonuses, and commissions is also ignored.

Instead the state budget deficits are blamed on underpaid school teachers and other civil servants. The fact is that the pay received by most state and local government workers, when adjusted for education, skill, and experience is notoriously lower that the pay in the private sector. Many local government workers actually qualify for food stamps.

It is true that politicians found it easier to make government jobs somewhat more attractive not by raising government workers' salaries but by offering expanded medical and retirement benefits. Like many large corporations, those politicians also did not adequately fund the pension promises they made to their workers. Those promises did not have to be paid for until some distant point in time when the politicians and corporate CEOs would be long gone. As the failure of corporate pension plans across the nation over the last two decades has demonstrated, such financial irresponsibility has not been limited to the public sector.

The attack on teachers, police officers, fire fighters, and other civil servants as the cause of the various states' budget problems is cheap scapegoating. Public employees did not cause the Great Recession that cutoff the flow of tax revenues to state government coffers. Very wealthy financial speculators did that. It is pure political demagoguery to use the fear and uncertainty generated by the current economic hard times to attack underpaid workers in order to pursue an unrelated political agenda, namely to renew the ongoing attack on workers' rights to collectively bargain in their workplace.

There is no doubt that there is more economic pain to come and that government employees are going to have to share in it. Most have offered to do so. That is a fact of life during a serious economic downturn. But blaming the hard times and budget deficits on those whose pay and benefits you are cutting and topping that off by unilaterally taking away some of their civil rights, demoting them to second class citizens, is hardly a way of bringing citizens together to weather, as best we can, these very difficult times. When we need to be pulling together as a nation, state, and community, this partisan scapegoating is simply making bad times worse.