

March 1, 2010

[David Goldman](#) (AKA Spengler) gives ten reasons why the economy is not recovering. He discusses his number one reason at some length in the post. Here are three of his other reasons:

7. *State fiscal crises continue to worsen. “[Doomsday is here for the state of Illinois](#),” California’s last set of cosmetic measures [do little](#) to address a \$20 billion deficit, [Baltimore](#) has no idea how to close a \$120 billion deficit. On top of this year’s \$200 billion deficit, states face a [trillion-dollar shortfall](#) in pension funds.*

5) *Regional banks continue to drop like flies, with 702 banks holding assets of \$403 billion on the [danger list](#).*

3) *What bank credit is available is funding the US Treasury deficit in the mother of all crowdings-out, replacing commercial loans on banks’ balance sheets...*

In the [WaPo](#), [Senator Tom Coburn](#) says that government spending is the our biggest problem. *For the past several weeks the American people have been inundated with analysis about what's wrong with Washington largely from the perspective of Washington insiders who are frustrated about health care and political retirements. We're told that gridlock, procedural holds, partisanship and extreme ideology are preventing members of Congress from working together. While some of this analysis is true -- Washington is petty, partisan and shortsighted -- few are acknowledging that Congress does enjoy remarkable unity in one critical area: spending beyond our means.*

In the past two years, an institution supposedly paralyzed by gridlock has succeeded in passing the most consequential pieces of legislation it handles every year -- appropriations bills -- by 3-to-1 margins. In the past few weeks, Congress has [increased the debt limit from \\$12.1 trillion to \\$14.3 trillion](#) but made no effort to eliminate any wasteful or duplicative spending. Since 1994, both parties have worked together to create 90,000 new earmarks, with only a handful of earmarks going down to defeat. ...

...The message of hope that America needs to hear is that individual citizens really do have the power to fire and replace members of the spending supermajority. Since just 1994, the country has experienced several "change" elections that resulted in shifts in power in Washington. These change elections show that our political system is working. When the American people are engaged, new representatives and senators are elected.

The gridlock theorists should remember the wise words of Thomas Jefferson: "When the people fear their government, there is tyranny; when the government fears the people, there is liberty." ...

Prepare to be nauseated. In [Reason](#), [Steven Greenhut](#) explains the numerous ways in which the government rich are getting richer and more powerful while the rest of us are getting poorer.

Politicians allow government employees to break laws.

In April 2008, The Orange County Register published a bombshell of an investigation about a license plate program for California government workers and their families. Drivers of nearly 1 million cars and light trucks—out of a total 22 million vehicles registered statewide—were protected by a “shield” in the state records system between their license plate numbers and their home addresses. There were, the newspaper found, great practical benefits to this secrecy.

“Vehicles with protected license plates can run through dozens of intersections controlled by red light cameras with impunity,” the Register’s Jennifer Muir reported. “Parking citations issued to vehicles with

protected plates are often dismissed because the process necessary to pierce the shield is too cumbersome. Some patrol officers let drivers with protected plates off with a warning because the plates signal that drivers are 'one of their own' or related to someone who is." ...

Politicians approve large salaries for people who produce nothing in the economy. Although they do produce more bureaucracy, rules, and regulations that we must pay for and follow.

...There was a time when government work offered lower salaries than comparable jobs in the private sector but more security and somewhat better benefits. These days, government workers fare better than private-sector workers in almost every area—pay, benefits, time off, and job security. And not just in California.

According to a 2007 analysis of data from the U.S. Bureau of Labor Statistics by the Asbury Park Press, "the average federal worker made \$59,864 in 2005, compared with the average salary of \$40,505 in the private sector." ... As Heritage Foundation legal analyst James Sherk explained to the Press, "The government doesn't have to worry about going bankrupt, and there isn't much competition."

Politicians legislate excessive pensions that will be paid for by those of us who work in the private sector.

...But the real action isn't in what government employees are being paid today; it's in what they're being promised for tomorrow. Public pensions have swollen to unrecognizable proportions during the last decade. In June 2005, BusinessWeek reported that "more than 14 million public servants and 6 million retirees are owed \$2.37 trillion by more than 2,000 different states, cities and agencies," numbers that have risen since then. State and local pension payouts, the magazine found, had increased 50 percent in just five years.

Then politicians and government workers say there's not enough money to provide basic services like policing. They don't tell the truth about why they can't provide the minimal services that a government should provide its citizens.

In July 2009, Orange County, California, Sheriff Sandra Hutchens proposed more than \$20 million in budget cuts to close the gap caused by falling tax revenue. ...

...The sheriff failed to identify another reason for the tight budget: In 2001 the Orange County Board of Supervisors had passed a retroactive pension increase for sheriff's deputies. That policy nearly doubled pension costs from 2000 to 2009, when pension contributions totaled nearly \$95 million—20 percent of the sheriff's budget. So the sheriff decries an economic downturn that is costing her department about \$20 million, but she doesn't mention that a previous pension increase is costing her department more than double that amount. It's safe to say that had the pension increase not passed, the department would have money to keep officers on the streets and to avoid the cuts the sheriff claims are threatening public safety. ...

And the government grows and metastasizes, killing the economy and destroying the standard of living for normal Americans.

...At all levels, state and local government employment grew by 13 percent across the United States from 1994 to 2004. The number of judicial and legal employees increased by 28 percent. The number of public safety workers increased by 21 percent. The number of teachers increased by 22 percent. ...

Michael Hodges' invaluable Grandfather Economic Report uses the Bureau of Labor Statistics to chart the growth in state and local government employees since 1946. Their number has increased from 3.3 million then to 19.8 million today—a 492 percent increase as the country's population increased by 115 percent. ...

Chase Davis, in the Ventura County Star, reports on another perk that California government employees are receiving.

Amid a crippling fiscal crisis, managers throughout California's government have routinely allowed their employees to amass unused vacation time, enabling hundreds of workers to end their public service careers with payouts topping \$100,000, a California Watch investigation has found.

...In one case, James C. Tudor Jr., the former president of the State Compensation Insurance Fund, cashed out six times more vacation time than regulations allow, taking home more than \$550,000 after he was fired in 2007 in the wake of an internal probe that "uncovered serious abuses at the highest levels," according to state Senate documents. ...

...State regulations cap the amount of vacation time most employees can accrue at a maximum of 80 workdays, or 640 hours. ...

...It also dwarfs caps at some of the state's largest private employers, including Oracle, Western Digital and Nestlé USA, records and interviews show.

Nestlé in Glendale, for instance, caps its longest-serving employees at 280 hours. ...

In the LA Times, **Andrew Malcolm** has the back story on Desiree Rogers' departure from the White House.

...The departures have started rather early for the Obama Chicago crowd -- just 13+ months in. But the power jockeying has been going on inside all along. And today....

*...the weeding began. **Desiree Rogers**, the White House Social Secretary who was such a close Chicago pal of both Obama and his wife **Michelle**, is gone as of next month. ...*

You will recall the Obamas' first-ever White House State Dinner last fall for India's prime minister, one of dozens of events organized by Rogers. However, the glittery guests included the notoriously uninvited Salahi couple. They were thoroughly searched like everyone else. ...

...The Obama political crew, which knows how important family friends are to the boss and, more importantly, the boss' wife, hung the blame on the Secret Service.

...But here's Rogers' problem: She's not from the Daley Democratic faction that controls the White House now, particularly access to Obama. The Ticket [examined the Chicago connections in depth here earlier this month](#). ...

Inner Workings Blog

[Dave's Top 10 Reasons to Fade the Recovery \(It's Not a Business Cycle!\)](#)

by David Goldman

This is NOT a business cycle: this is a one-time reversal of twenty years of inflation of the household balance sheet. An aging population needs a 10% savings rate (at least) to meet minimum funding requirements for the biggest retirement wave in US history (comparable to Japan's retirement wave during the "lost decade" of the 1990s). With 17% effective unemployment, many Americans are dis-saving, after a \$6 trillion shock to home equity.

- 10) There is no recovery at all in Europe. [European growth ground to a halt](#) during the fourth quarter and German business confidence [unexpectedly fell](#) in February.
 - 9) China won't collapse, but government efforts to stop [overheating](#) by raising reserve requirements make clear that the world's second-largest economy can't be the locomotive for world growth.
 8. Greece and its prospective rescuers in the European Community [are at loggerheads](#) over conditions for EC help. "Greece faces several important challenges in the coming days, including an expected bond auction, a planned general strike on Wednesday, and a visit from European Union officials that began Monday, aimed at pushing the country to take tougher steps to rein in its budget deficit," WSJ reported today.
 7. State fiscal crises continue to worsen. "[Doomsday is here for the state of Illinois](#)," California's last set of cosmetic measures [do little](#) to address a \$20 billion deficit, [Baltimore](#) has no idea how to close a \$120 billion deficit. On top of this year's \$200 billion deficit, states face a [trillion-dollar shortfall](#) in pension funds.
 - 6) Commercial real estate is nowhere near bottom, with some sectors (e.g. hotels) at [delinquency rates of nearly 10%](#). [Credit Suisse](#) says that delinquencies could reach \$60 billion.
 - 5) Regional banks continue to drop like flies, with 702 banks holding assets of \$403 billion on the [danger list](#).
 - 4) Bank credit continues to shrink. Total bank credit is still falling at a 5% annual rate, an unprecedented decline:
 - 3) What bank credit is available is funding the US Treasury deficit in the mother of all crowdings-out, replacing commercial loans on banks' balance sheets:
 - 2) Industrial production has bounced off the bottom, but manufacturing is only 15% of US employment.
- And Dave's top reason to fade the recovery is
- 1) Employment won't come back. Today's consumer confidence number is one more nail in the coffin of exaggerated hopes for a cyclical recovery.

As I wrote on the [First Things On the Square blog Feb. 18](#),

What replaced the lost manufacturing jobs? The sectors showing the largest increase in employment since 1993 (the end of the "employment recession" of the early 1990s) are shown in the table below, along with the change in employment since 2007:

Employment Change (1000's)

	1993-2007	2007-2009
Professional Serv.	6447	-1155
Education/Health	6019	950
Trade	4252	-1367
Leisure	3695	-247
Government	3229	298
Construction	2851	-1396
Financial	1592	-528
Other	1144	-82
Information	364	-176
Mining	58	3
Manufacturing	-2895	-1901

Source: BLS

The largest contributor to employment growth turns out to be professional services. This includes everything from real estate to accounting to law. We observe that construction gained about as many jobs (2.851 million) between 1993 and 2007 as manufacturing lost (2.895 million)—if off-the-books labor were counted, the number would be much higher. The “professional services” category was buoyed by the real-estate boom. That is why it lost almost as many jobs (1.155 million) as construction (1.396 million) after 2007.

In fact, of the sectors contributing most to employment growth during the long employment boom of 1993–2007, only education, health, and government (which partially overlap) sustained employment increases between 2007 and 2009. It is reasonable to expect that the aging U.S. population will require more health services going forward, but hiring is likely to be incremental at best. Government spending under the Obama stimulus plan helped postpone layoffs at the state and local level, but is unlikely to create many new jobs.

SNIP

From other cross-sections of the data we see that the job losses have hit hardest the blue-collar working class, but also they've hit the upwardly mobile with some college training:

Unemployment Rate by Educational Level

	2008 Q1	2009 Q4
No H.S. Diploma	7.6	15.3
H.S. Diploma	4.8	10.7
Some College	3.8	9
BA or Better	2.1	4.6

Source: BLS

Workers with a B.A. degree or greater show a relatively low unemployment rate, although these numbers do not take into account long-term unemployed.

Given the inability of manufacturing industry to absorb many workers, and the poor likelihood that construction will do so, it is not clear where, or if ever, a large part of the American blue-collar labor force will work again. The semi-trained white collar labor force with an associate degree or a couple of years of college found ready work in the services expansion associated with the real-estate boom, but it is not clear what will happen to them now.

In previous recoveries, virtually all net new job creation came from new businesses. Most new businesses, to be sure, are small businesses, although the ones that created the most jobs were startups that grew very quickly. The most common estimate is that new business accounts for about two-thirds of net job creation.

During the 1980s, cellular phones, cable television, and other new technologies were an important source of new job growth. During the 1990s, the tech boom funded tens of thousands of startups, and, during the 2000s, the real-estate boom. Every deadbeat could get a job in the 1980s installing cable televisions, and every starving artist became a real-estate agent during the 2000s.

SNIP

There is some analogy to the Great Depression in the present situation. Between 1918 and 1939, American agriculture was in permanent decline, because the end of the First World War reduced demand for American exports, and because the substitution of the tractor for draught animals freed up an enormous amount of land set aside for animal feed. There was nothing to be done but to get the farmers off the land into other occupations, and that was not accomplished until the Second World War.

Washington Post

[Congress's real problem? A lack of restraint on spending](#)

by Tom Coburn

For the past several weeks the American people have been inundated with analysis about what's wrong with Washington largely from the perspective of Washington insiders who are frustrated about health care and political retirements. We're told that gridlock, procedural holds, partisanship and extreme ideology are preventing members of Congress from working together. While some of this analysis is true -- Washington is petty, partisan and shortsighted -- few are acknowledging that Congress does enjoy remarkable unity in one critical area: spending beyond our means.

In the past two years, an institution supposedly paralyzed by gridlock has succeeded in passing the most consequential pieces of legislation it handles every year -- appropriations bills -- by 3-to-1 margins. In the past few weeks, Congress has [increased the debt limit from \\$12.1 trillion to \\$14.3 trillion](#) but made no effort to eliminate any wasteful or duplicative spending. Since 1994, both parties have worked together to create 90,000 new earmarks, with only a handful of earmarks going down to defeat.

The problem, therefore, is not gridlock. The problem is that Congress is working in a bipartisan fashion to make our economic future less secure. The facts show that Congress is controlled by a supermajority of members from both parties who believe it is fine to borrow and spend far beyond our means and avoid hard choices.

In the past decade, this consensus has helped put our nation on a path toward economic ruin. Total federal spending has doubled since 2000, increasing at three times the rate of inflation -- far faster than family budgets. By the end of 2010, our national debt will equal the size of our entire gross domestic product (GDP), which many economists view as a tipping point. A study released last month by economists [Carmen Reinhart](#) of the University of Maryland and [Kenneth Rogoff](#) of Harvard found that when advanced nations reach this tipping point they experience [slower economic growth and face higher interest rates and inflation](#).

This is a dangerous position in light of our future challenges. The impending collapse of our entitlement programs -- Medicare, Medicaid and Social Security -- could cause tax rates to double if we do nothing. If we try to borrow our way out of insolvency, we could face a collapse in the value of the dollar, skyrocketing interest rates, hyperinflation or all of the above. Our decision to give potential adversaries enormous leverage over both our foreign policy and domestic economy is a national security crisis waiting to happen, [according to experts such as Richard Haass](#), president of the Council on Foreign Relations.

President Obama's appointment of a [debt commission to address spending](#) is an indirect rebuke of the spending supermajority when a direct rebuke would be more helpful. The American people believe we already have a commission to confront our debt. It's called the United States Congress. If members of Congress aren't up to that task, we don't need a new commission, we need a new Congress.

The message of hope that America needs to hear is that individual citizens really do have the power to fire and replace members of the spending supermajority. Since just 1994, the country has experienced several "change" elections that resulted in shifts in power in Washington. These change elections show that our political system is working. When the American people are engaged, new representatives and senators are elected.

The gridlock theorists should remember the wise words of Thomas Jefferson: "When the people fear their government, there is tyranny; when the government fears the people, there is liberty."

Underneath much of the analysis about gridlock is a real and wonderful fear of the people. It is heard in heated rhetoric about the "angry mobs," the "tea partiers" and so on. January's special election in Massachusetts shows that the balance of power is shifting back toward the people, and toward liberty.

When [John Podesta](#), a top Democratic adviser and former White House chief of staff, recently said [our political system "sucks"](#) -- apparently because a majority of the American people rejected a government takeover of health care -- he was unintentionally highlighting Jefferson's point. In our system, angry mobs -- motivated citizens -- are the lifeblood of democracy. The threat to liberty comes from angry elites -- elected leaders who ignore the obvious will of the people until they are voted out of office.

The problem in Washington is simple: The future of our republic is at risk not because we disagree but because we agree intensely about spending our way into oblivion. We are broke, but not broken. The American people have the power to put our nation on a sustainable course and end the spending supermajority that threatens our future.

The writer, a physician, is a Republican senator from Oklahoma.

Reason

[Class War](#)

How public servants became our masters

by Steven Greenhut

In April 2008, *The Orange County Register* published a bombshell of an investigation about a license plate program for California government workers and their families. Drivers of nearly 1 million cars and light trucks—out of a total 22 million vehicles registered statewide—were protected by a “shield” in the state records system between their license plate numbers and their home addresses. There were, the newspaper found, great practical benefits to this secrecy.

“Vehicles with protected license plates can run through dozens of intersections controlled by red light cameras with impunity,” the *Register’s* Jennifer Muir reported. “Parking citations issued to vehicles with protected plates are often dismissed because the process necessary to pierce the shield is too cumbersome. Some patrol officers let drivers with protected plates off with a warning because the plates signal that drivers are ‘one of their own’ or related to someone who is.”

The plate program started in 1978 with the seemingly unobjectionable purpose of protecting the personal addresses of officials who deal directly with criminals. Police argued that the bad guys could call the Department of Motor Vehicles (DMV), get addresses for officers, and use the information to harm them or their family members. There was no rash of such incidents, only the possibility that they could take place.

So police and their families were granted confidentiality. Then the program expanded from one set of government workers to another. Eventually parole officers, retired parking enforcers, DMV desk clerks, county supervisors, social workers, and other categories of employees from 1,800 state agencies were given the special protections too. Meanwhile, the original intent of the shield had become obsolete: The DMV long ago abandoned the practice of giving out personal information about *any* driver. What was left was not a protection but a perk.

Yes, rank has its privileges, and it's clear that government workers have a rank above the rest of us. Ordinarily, if one out of every 22 California drivers had a license to drive any way he chose, there would be demands for more police power to protect Californians from the potential carnage. But until the newspaper series, law enforcement officials and legislators had remained mum. The reason, of course, is that the scofflaws *are* law enforcement officials and legislators.

Here is how brazen they've become: A few days after the newspaper investigation caused a buzz in Sacramento, lawmakers voted to *expand* the driver record protections to even more government employees. An Assembly committee, on a bipartisan 13-to-0 vote, agreed to extend the program to veterinarians, firefighters, and code officers. "I don't want to say no to the firefighters and veterinarians that are doing these things that need to be protected," Assemblyman Mike Duvall (R-Yorba Linda) explained.

Exempting themselves from traffic laws in the name of a threat that no longer exists is bad enough, but what government workers do to the rest of us on a daily basis makes ticket dodging look like child's play. Often under veils of illegal secrecy, public-sector unions and their political allies are systematically looting the public treasury with gold-plated pensions, jeopardizing the finances of state and local governments around the country, removing themselves from legal accountability, and doing it all in the name of humble working men and women just looking for their fair share. Government employees have turned themselves into a coddled class that lives better than its private-sector counterpart, and with more impunity. The public's servants have become our masters.

Good Enough for Government Work

There was a time when government work offered lower salaries than comparable jobs in the private sector but more security and somewhat better benefits. These days, government workers fare better than private-sector workers in almost every area—pay, benefits, time off, and job security. And not just in California.

According to a 2007 analysis of data from the U.S. Bureau of Labor Statistics by the *Asbury Park Press*, "the average federal worker made \$59,864 in 2005, compared with the average salary of \$40,505 in the private sector." Across comparable jobs, the federal government paid higher salaries than the private sector three times out of four, the paper found. As Heritage Foundation legal analyst James Sherk explained to the *Press*, "The government doesn't have to worry about going bankrupt, and there isn't much competition."

In February 2008, before the recession made the disparity much worse, *The New York Times* reported that "George W. Bush is in line to be the first president since World War II to preside over an economy in which federal government employment rose more rapidly than employment in the private sector." The Obama administration has extended the hiring binge, with executive branch employment (excluding the Postal Service and the Defense Department) slated to grow by 2 percent in 2010—and more than 15 percent if you count temporary Census workers.

The average federal salary (including benefits) is set to grow from \$72,800 in 2008 to \$75,419 in 2010, CBS reported. But the real action isn't in what government employees are being paid today; it's in what they're being promised for tomorrow. Public pensions have swollen to unrecognizable proportions during the last decade. In June 2005, *BusinessWeek* reported that "more than 14 million public servants and 6 million retirees are owed \$2.37 trillion by more than 2,000 different states, cities and agencies," numbers that have

risen since then. State and local pension payouts, the magazine found, had increased 50 percent in just five years.

These huge pension increases have eaten away at public finances, most spectacularly in California, where a bipartisan bill that passed virtually without debate unleashed the odious “3 percent at 50” retirement plan in 1999. Under this plan, at age 50 many categories of public employees are eligible for 3 percent of their final year’s pay multiplied by the number of years they’ve worked. So if a police officer starts working at age 20, he can retire at 50 with 90 percent of his final salary until he dies, and then his spouse receives that money for the rest of her life. Even during the economic crisis, “3 percent at 50” and the forces behind it have only become more entrenched.

In the midst of California’s 2008–09 fiscal meltdown, with the impact of deluxe public pensions making daily headlines, the city of Fullerton nevertheless sought to retroactively increase the defined-benefit retirement plan for its city employees by a jaw-dropping 25 percent. What’s more, the Fullerton City Council negotiated the increase in closed session, outside public view. Under California’s open meetings law, known as the Brown Act, even legitimate closed-session items such as contract negotiations are supposed to be advertised so that the public has a clear idea of what’s being discussed. But the Fullerton agenda for that night only vaguely referred to labor negotiations.

Four of the five council members—two Republicans and two Democrats—seemed to support the deal. But Republican Shawn Nelson, a principled advocate for limited government, didn’t appreciate the way the council was obscuring not only the legitimately secret details of the negotiations but the basic subject matter. He called me at the *Register* (where I worked at the time) and, without revealing details of the closed session, shared his concerns about the way the public had not been alerted. After I wrote about the secret, fiscally reckless deal, the recriminations came down in a hurry: on Shawn Nelson.

Not surprisingly, the liberal council members were furious that the public had been informed about what was going on. But some conservative Republicans, including a prominent state senator, Dick Ackerman of Irvine, were angry as well, because Nelson’s willingness to talk embarrassed a Republican councilman whom the GOP was backing for re-election. When I later bumped into Ackerman at the Republican National Convention in St. Paul, he laid into me about Nelson’s supposed violation of the Brown Act. Some officials and bloggers actually called for Nelson to be prosecuted. Local union mouthpieces and fellow council members portrayed the whistleblower as a common criminal, even though he was merely acting in the spirit of the open meetings law and showing the kind of fiscal responsibility you would hope to see in public officials.

In its embarrassment, the city council voted against the deal at the last minute, but only after council members publicly chastised Nelson, accused me of libel, and vowed to come back for more when the timing was right. One Republican councilman couldn’t figure out what the fuss was all about, given that the council enhances public employee pay and pensions all the time.

Pension Tsunami

Although Americans may have a vague sense that the nation has run up a great deal of debt, the public employee benefit problem is not well known. Yet the wave of benefit promises is poised to wash away state and local government budgets and large portions of the incomes of most Americans. Most of these benefits are vested, meaning that they have the standing of a legal contract. They cannot be reduced. And the government employees’ allies, such as California’s legislative Democrats, are cleverly blocking some of the more obvious exit strategies.

For instance, when the city of Vallejo went bankrupt after coughing up 75 percent of its budget to police and firefighters, the state Assembly introduced legislation that would allow cities to go bankrupt only if they get

approval from a commission. Such a commission would of course be dominated by union-friendly members. The result: Cities would be stuck making good on contracts they cannot afford to fulfill.

When the economy was booming, these structural problems could be hidden. But not now. As debt loads become unsustainable, you can expect cuts in services, tax increases, pension-obligation bonds, or some combination of the three.

In California unfunded pension and health care liabilities for state workers top \$100 billion, and the annual pension contribution has shot up from \$320 million to \$7.3 billion in less than a decade. In New York state, local governments may have to triple their annual pension contributions during the next six years, from \$2.6 billion to \$8 billion, according to the state comptroller.

That money will come from taxpayers. The average private-sector worker, who enjoys a lower salary and far lower retirement benefits than New York or California government workers, will have to work longer, retire later, and pay more so that his public-employee neighbors can enjoy the lifestyle to which they have become accustomed. The taxpayers will also have to deal with worsening public services, since there will be less money to pay for things that might actually benefit the public.

In July 2009, Orange County, California, Sheriff Sandra Hutchens proposed more than \$20 million in budget cuts to close the gap caused by falling tax revenue. Her department slashed 40 percent of its command staff, cut a total of about 30 positions, and made changes that affected about 200 positions through reassignments, demotions, new overtime rules, and other maneuvers. "These are services that we believe are quite important to maintaining public safety, that we're just not going to be able to continue," department spokesman John MacDonald told the *Los Angeles Times*.

The sheriff failed to identify another reason for the tight budget: In 2001 the Orange County Board of Supervisors had passed a retroactive pension increase for sheriff's deputies. That policy nearly doubled pension costs from 2000 to 2009, when pension contributions totaled nearly \$95 million—20 percent of the sheriff's budget. So the sheriff decries an economic downturn that is costing her department about \$20 million, but she doesn't mention that a previous pension increase is costing her department more than double that amount. It's safe to say that had the pension increase not passed, the department would have money to keep officers on the streets and to avoid the cuts the sheriff claims are threatening public safety.

Chief's Disease

One would think that a "3 percent at 50" retirement would be a good enough deal for most people. Most workers in the private sector would probably jump at such an opportunity. But many public safety officials aren't satisfied with a system that allows them to retire with 90 percent or more of their final year's pay at young ages. They feel compelled to game the system in ways that stretch or break the law.

A large percentage of public safety officials—more than two-thirds of management-level officials at the California Highway Patrol, for instance—come down with something widely known as "Chief's Disease" about a year before their scheduled retirement. "High-ranking [CHP] officers, nearing the end of their careers, routinely pursued disability claims that awarded them workers' comp settlements," John Hill and Dorothy Korber of the *Sacramento Bee* reported in 2004. "That, in turn, led in many cases to disability retirements. As they collected their disability pensions, some of these former CHP chiefs embarked on rigorous second careers—one as assistant sheriff of Yolo County, for example, another as the security director for San Francisco International Airport."

When Mike Clesceri was mayor of Fullerton (a part-time position filled by a city council member), he also worked as an investigator for the Orange County District Attorney's Office. As his retirement approached, Clesceri claimed to have an extreme case of acid reflux, which would help him net a tax-free pension of \$58,000 a year, plus cost-of-living increases. Even while retired with that alleged disability, Clesceri pursued

a local police chief's job, retained his mayorship, and ran a tough re-election campaign. He even had the time to have his brother-in-law, an attorney, send threatening letters to members of the community who commented on the absurdity of his disability pension. As Clesceri explained in a newspaper column, the disability only applied to his job at the D.A.'s office.

The exposure of this abuse ultimately galvanized the public to boot Clesceri off the Fullerton City Council. The problem is most of these situations never get aired publicly.

Other state employees go to great lengths to find the highest-paying job they can in their final year, thereby locking in their permanent retirement benefit based on a salary they made only once. *Bee* reporters Hill and Korber told the story of Sharon McGraw, a Sacramento-area accounting manager for the state who moved from her suburban home to a tiny apartment in the San Francisco Bay area so she could temporarily take a high-paying job that would increase her pension benefit by \$18,000 a year.

Then there's the bizarre story of Armando Ruiz, a part-time trustee for the Coast Community College District in Southern California. Ruiz also worked full time as an administrator with the South Orange County Community College District. Ruiz wanted to run for re-election as a trustee and use the "incumbent" label on his ballot, but he also wanted to take advantage of a strange California law that dramatically increases an employee's pension payout if he retires from two jobs on the same day.

"Ruiz 'retired,' effective Oct. 31, as a part-time trustee of the Coast district and as a full-time counselor at Irvine Valley College," *Register* columnist Frank Mickadeit reported in 2008. "Even though the trustee gig pays just a \$9,800 annual stipend, he was able to calculate his state pension as if he had been paid \$106K a year for that 'job' plus the \$106K a year he got for his real job at Irvine. So, based on a \$212K salary he never really made, his pension will work out to about \$108K a year for life. Otherwise, the pension would have been \$59K—\$54K for the real job; \$5K for the trustee job. Even though Ruiz was officially retired from the Coast district board, he was still listed on Tuesday's ballot as an incumbent. A cynical person might say that by waiting to 'retire,' just days before the election Ruiz knew it would be too late to change the ballots. And incumbents rarely lose such elections."

The only good news from that scam: After Ruiz's maneuver was exposed, the state legislature repealed the incomprehensible pension-spiking rule. But the pending pension crisis, with its thousands of abuses undetected by outside scrutiny, continues to loom over our heads.

The Public Sector Menace

In the summer of 2009, various Democratic candidates for California attorney general came before the Police Officers Research Association of California, a union lobbying organization, to ask for its support. According to one attendee (who asked to remain anonymous, given the obvious repercussions for his career), the organization had two basic questions for Assemblymen Ted Lieu (D-Torrance), Alberto Torrico (D-Newark), and Pedro Nava (D-Santa Barbara), each a candidate in the 2010 attorney general race. The first: Did they support the death penalty for cop killers? The second: Would each candidate, as attorney general, make sure the official summary of a state pension reform proposal would be slanted to destroy its chances of passing?

In California crafting ballot language is one of the most important jobs of the state's attorney general. The police union officials reminded the candidates that 90 percent of voters read nothing more than the ballot title and summary, and they emphasized the importance of putting the kibosh to the measure. My source was appalled, not just by the directness of the question but by the eagerness with which the candidates, especially Torrico, answered it. They all promised they would help kill the measure.

Public-sector unions have a growing influence in state and federal governments, and in the overall labor movement, but they are a relatively recent phenomenon. Civil service unionization in the federal government

wasn't allowed until President John F. Kennedy issued an executive order legalizing it in 1962. In California it didn't become legal until 1968. Yet now California may be spearheading the re-unionization of the country.

In a 2003 study of union membership rates, the sociologists Ruth Milkman and Daisy Rooks explained that "California stands out as an exception to the general pattern of the past decade. Against all odds, union density has inched upward in the nation's most populous state, from 16.1 percent of all wage and salary workers in 1998 to 17.8 percent in 2002."

The study was produced by the University of California Institute for Labor and Employment, itself a testament to union power in the Golden State. Critics call the institute Union University, arguing that the state is funding a left-wing advocacy and research organization that advances union causes. As the *Los Angeles Times* explained in a 2004 article about the controversy, "For years these programs received the majority of their funding from the budgets of the universities where they are housed. Then in the 2000–01 budget, former Gov. Gray Davis approved \$6 million to create the institute encompassing the two centers and charged with carrying out 'research, education and service involving the world of work, and the public and private policies that govern it.'"

In the 2003 study, Milkman and Rooks found that union growth in California's public sector has far outpaced such growth in other states, for an obvious reason: "Organized labor has more political influence in California than in most other states." In more-recent studies, the Institute for Labor and Employment found that for the first time in five decades, U.S. unionization rates actually *increased* in 2008. The reason: increases in California, mainly in the government sector.

At all levels, state and local government employment grew by 13 percent across the United States from 1994 to 2004. The number of judicial and legal employees increased by 28 percent. The number of public safety workers increased by 21 percent. The number of teachers increased by 22 percent.

Michael Hodges' invaluable *Grandfather Economic Report* uses the Bureau of Labor Statistics to chart the growth in state and local government employees since 1946. Their number has increased from 3.3 million then to 19.8 million today—a 492 percent increase as the country's population increased by 115 percent. Since 1999 the number of state and local government employees has increased by 13 percent, compared to a 9 percent increase in the population.

The United States had 2.3 state and local government employees per 100 citizens in 1946 and has 6.5 state and local government employees per 100 citizens now. In 1947, Hodges writes, 78 percent of the national income went to the private sector, 16 percent to the federal sector, and 6 percent to the state and local government sector. Now 54 percent of the economy is private, 28 percent goes to the feds, and 18 percent goes to state and local governments. The trend lines are ominous.

Bigger government means more government employees. Those employees then become a permanent lobby for continual government growth. The nation may have reached critical mass; the number of government employees at every level may have gotten so high that it is politically impossible to roll back the bureaucracy, rein in the costs, and restore lost freedoms.

People who are supposed to serve the public have become a privileged elite that exploits political power for financial gain and special perks. Because of its political power, this interest group has rigged the game so there are few meaningful checks on its demands. Government employees now receive far higher pay, benefits, and pensions than the vast majority of Americans working in the private sector. Even when they are incompetent or abusive, they can be fired only after a long process and only for the most grievous offenses.

It's a two-tier system in which the rulers are making steady gains at the expense of the ruled. The predictable results: Higher taxes, eroded public services, unsustainable levels of debt, and massive roadblocks to reforming even the poorest performing agencies and school systems. If this system is left to grow unchecked, we will end up with a pale imitation of the free society envisioned by the Founders.

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Ventura County Star

[High state-worker payouts break rules, cost millions](#)

By Chase Davis, California Watch

Amid a crippling fiscal crisis, managers throughout California's government have routinely allowed their employees to amass unused vacation time, enabling hundreds of workers to end their public service careers with payouts topping \$100,000, a California Watch investigation has found.

One worker combined vacation and compensatory time to walk away with more than \$800,000, records show.

In the past four years, nearly 500 government workers earned six-figure paychecks mostly for unused vacation. In total, the state spent \$486 million from 2006 to mid-2009 to pay more than 52,000 employees for time-off benefits, which include a small percentage of unused comp time and holidays that weren't taken.

Many of those cash payments appeared to violate rules designed to limit how much vacation time state workers can accumulate during their careers. Most employees are allowed to bank 80 days' worth of unused vacation, but records show that supervisors routinely allow them to exceed that amount.

The problem is growing, state payroll officials said. Personnel documents estimate that as of December 2008, more than 14,000 active state employees already exceeded their vacation caps.

In one case, James C. Tudor Jr., the former president of the State Compensation Insurance Fund, cashed out six times more vacation time than regulations allow, taking home more than \$550,000 after he was fired in 2007 in the wake of an internal probe that "uncovered serious abuses at the highest levels," according to state Senate documents.

Another state employee was allowed to accumulate large amounts of comp time in addition to unused vacation days, taking home \$815,000 when he left state service.

The payout for Dr. Kim Nguyen, who worked at the prison substance abuse facility in Corcoran, includes more than twice the allowable amount of vacation time and nearly 10 times the limit of comp time for physicians, records show.

Doctor blames policy

In an interview, Nguyen said a heavy workload kept him from using his vacation, and his supervisors paid for extra shifts in comp time instead of overtime, leaving him few options.

"They never hired enough doctors," he said. "I never complained so they thought we could handle it. They kept asking us to work more."

These large payouts were made during a tumultuous time for the state budget, when lawmakers trimmed programs for child welfare, elder care, domestic violence and other state services to help eliminate multibillion-dollar budget gaps. This year, lawmakers are scrambling to make even more cuts in the face of a \$20 billion shortfall.

Amid this, Gov. Arnold Schwarzenegger has instituted mandatory furlough days that most state workers must use before their vacation days. The result, according to several large departments, is that workers are banking more time off than ever, offsetting short-term savings with long-term liabilities.

Though some departments argue that their employees must work long and unpredictable hours, critics say the payments highlight a system defined by lax management and generous benefits unavailable to most workers in the private sector.

“This is part of the whole milieu of excess compensation packages in the public sector,” said Jon Coupal, president of the Howard Jarvis Taxpayers Association.

Not following regulations

Most state employees build up vacation and annual leave at a rate of 7 to 20 hours a month, depending on the type of leave, bargaining units and years of service. State regulations cap the amount of vacation time most employees can accrue at a maximum of 80 workdays, or 640 hours. Some employees collect “annual leave time,” which includes both vacation and sick days that is subject to the same limits.

The cap is higher than at least three other large states — New York, Florida and Texas — none of which allow employees to cash out more hours than California. It also dwarfs caps at some of the state’s largest private employers, including Oracle, Western Digital and Nestlé USA, records and interviews show.

Nestlé in Glendale, for instance, caps its longest-serving employees at 280 hours.

If a state employee goes over the limit, “there must be a plan” to reduce the balance before the next year, according to the state employee handbook. Managers are supposed to ensure that their employees stay under the cap except under “extenuating circumstances,” which gives managers broad latitude to grant exceptions.

When they cash out vacation days, state workers are effectively getting paid twice: once for the days they worked when they could have been on vacation and, when they retire, again for the vacation days they didn’t use.

Cost rises over time

Employees are paid for their cashed-out vacations at the salaries they received when they left the state, meaning that the payments get more expensive for the state over time. Once employees earn vacations, even if they exceed the cap, state law entitles them to cash out when they leave their state jobs.

It is impossible to calculate precisely how much the state has paid over the allowable limits because some select workers are subject to different caps.

Payroll data collected by California Watch from the state Controller’s Office don’t distinguish between unused vacation time and payouts for other time-off categories, such as comp time.

But public records and interviews with department managers suggest the state likely paid at least \$100 million, and perhaps tens of millions more, to state employees who exceeded the 640-hour ceiling from 2006 to mid-2009, the period examined by California Watch.

Julie Chapman, chief deputy director of policy at the state Department of Personnel Administration, acknowledged that the estimated \$100 million in payments over the limit — more than one-fifth of the \$486 million in total leave payments — constitutes a fair estimate.

The Department of Personnel Administration, which manages workplace issues for the state's 237,000 employees, proposed cracking down on the vacation-payout cap during contract talks in 2005 but later abandoned the idea in favor of other concessions, Chapman said.

During negotiations, union representatives pointed fingers at managers, who were exceeding the cap more often than rank-and-file workers, Chapman said. Indeed, state documents estimate that nearly 20 percent of nonunion workers, who are typically managers, had surpassed their caps as of late-2008, compared to about 4 percent of union employees.

Schwarzenegger spokesman Aaron McLearn referred questions about the cash-outs to the Department of Personnel Administration.

Vacation challenges

Many departments — particularly public safety agencies — argue that the unique and unpredictable nature of their work demands that employees take less vacation time than they earn, leaving them to accumulate large totals.

California Highway Patrol officers might be forced to cancel their vacations during emergencies, for example, or department managers might be understaffed and overworked, allowing vacations only in short spurts.

In other situations, asking employees to work extra time and bank their vacations could cost a department less money than paying other workers overtime to cover the shifts, some managers argued.

“There’s the spirit of the law and the letter of the law,” said Ramona Prieto, assistant commissioner of the Highway Patrol. “The letter says ‘here’s our limit’; the spirit says we’re a 24-hour safety organization.”

Even smaller departments that don’t serve a public safety function, such as the Office of the Governor and the Air Resources Board, reported spending more than \$1 million on cash-outs from 2006 to 2009.

When employees retire, department officials said, they typically cover the cost of their unused vacation and leave time by finding money within their budgets. Often, that means delaying the hiring of replacements, which can lead to work being stalled.

Two largest payments

Of the more than 52,000 employees who left state service with checks for unused leave, nobody left with more money than Nguyen who left with two checks totaling more than \$815,000 when he retired in 2008.

A series of raises given to prison physicians in order to attract new applicants nearly doubled his salary over two years, Nguyen said. “And that almost doubled the value of my vacation time.”

Although Tudor, the fired State Fund president, took home slightly less — \$550,000 — nearly all of his payment was for unused vacation time.

Fund spokeswoman Jennifer Vargen said Tudor, whose salary was \$273,000, cashed out 488 days of unused annual leave time, compared to 38 days of holidays and personal leave.

Tudor did not respond to numerous interview requests.

— California Watch is a project of the Center for Investigative Reporting, with offices in the Bay Area and Sacramento.

LA Times - Top of the Ticket

[What's really behind the departure of Desiree Rogers from Obama's White House?](#)

by Andrew Malcolm



When President-elect **George W. Bush's** brand-new Chief of Staff **Andrew Card** called the assembling White House transition team together for its first pre-inaugural staff meeting two blocks from their about-to-be workplace in January 2001, he told everyone in the eager room to look around.

"In 18 months," White House veteran Card announced, "most of you will be gone." (What he didn't say was, most of you will use this job on your resume to move on to really good money.)

The White House always looks the same when a new president moves in. But inside, it's a high-pressure, highly-competitive arena of determined egos, most of whom have just invested two or three years of their lives at crummy wages, eating crummy food, scrapping and tearing to get there. Not everyone gets along, including some big names who look all pally for the photos. And there's a perpetual turnover.

The departures have started rather early for the Obama Chicago crowd -- just 13+ months in. But the power jockeying has been going on inside all along. And today....

...the weeding began. **Desiree Rogers**, the White House Social Secretary who was such a close Chicago pal of both Obama and his wife **Michelle**, is gone as of next month.

That the announcement came on a Friday says, "This is not good news and we hope you miss it with the weekend starting soon." And the fact that the Obamas felt the need to provide the face-saving cover of a joint, if perfunctory, letter of praise ("We are enormously grateful to Desiree Rogers for the terrific job she's done") indicates Rogers had become an internal problem.

You will recall the Obamas' first-ever White House State Dinner last fall for India's prime minister, one of dozens of events organized by Rogers. However, the glittery guests included the notoriously uninvited Salahi couple. They were thoroughly searched like everyone else.

But the freeloaders got in because, unlike in previous administrations, there was no one from the Obama social secretary's office standing at the gate with names and photos to say, "Wait, who the heck are you now?"



Rogers, it turns out, was off enjoying the party herself (see photo above).

The Obama political crew, which knows how important family friends are to the boss and, more importantly, the boss' wife, hung the blame on the Secret Service.

Which is safe because as civil servants they can't fight back publicly. The president openly expressed anger over the gaffe in one TV interview. And procedures were quietly changed to re-install the old procedure.

Let a few months pass to permit connection deniability. And now Rogers is bye-bye.

Every single incoming White House team rewards its friends and even family with cool-sounding positions and opportunities. Obama even moved his mother-in-law into the people's house.

Rogers, like many in the Democrat's crowd, is a Harvard grad and a longtime, close friend/ally from the Windy City, where the profoundly interwoven Democratic friendships, alliances, coalitions, family and factional connections and coalitions have had generations to spread and resemble a mountain of spaghetti in their interconnections.

Rogers was a high-profile, stylish Chicago businesswoman, the public face of the Illinois lottery with many beneficial contacts, including fundraising, from her days as head of social networking at Allstate Financial.

Rogers' ex-husband, **John**, was a major Democratic fundraiser in Chicago and, oh look, he played basketball at Princeton with someone named **Craig Robinson**, now known as brother to First Lady **Michelle Obama**.

All very useful and mutually beneficial ties for political people coming up there.

But here's Rogers' problem: She's not from the Daley Democratic faction that controls the White House now, particularly access to Obama. The Ticket [examined the Chicago connections in depth here earlier this month](#).

But the Daley faction includes Chief of Staff **Rahm Emanuel**, who learned his ruthless business running errands for the Chicago machine in the 1980s, and **David Axelrod**, who knew the machine intimately as a Chicago Tribune politics reporter in those years before becoming a political consultant to them.

It also includes **Valerie Jarrett**, who was Mayor **Richard M. Daley's** deputy chief of staff when she hired someone named Michelle Robinson, now known as First Lady Michelle Obama. Would you like some more meatballs with your spaghetti?

Jarrett has always liked moving safely behind the scenes. Rogers enjoys the social sashaying out front and once raised even natural White House eyebrows by talking candidly with a reporter about selling the Obamas as a brand. All of which is true in politics and what you're supposed to do in her job. But you don't say that publicly.

That and the Indian dinner screw-up, among others, gave Jarrett her opening. Here's how a hardly devastated [Jarrett spoke of Rogers today](#): "I completely respect her decision to return to the private sector."

One other thing Card warned those new White House workers way back in 2001: "Remember, please remember, ladies and gentlemen, that when you leave the White House, your letter of resignation will go into the National Archives *forever*." After a long pause, he added: "Be careful what you say."

Rogers' will forever say it was "an honor and a privilege to serve this president and first lady, in what has certainly been a historic presidency."





