NEED TO KNOW

AMERICANS FOR PROSPERITY FOUNDATION

WISCONSIN'S BUDGET REFORM

In 2011, Wisconsin was the site of vast union protests and intense fighting over proposed state budget reforms offered by Governor Scott Walker. Instead of raising taxes to close the state's $3.6 billion deficit, the reforms sought to cut spending – saving taxpayer's hard-earned money. Signed on March 11, 2011, Act 10 in Wisconsin altered collective bargaining for public employees, including public school teachers and administration. Since enactment, Wisconsin school districts in particular have realized large savings with relatively minor changes to bargaining contracts.

QUICK FACTS

- The recent budget reform did not eliminate public sector unions in the state of Wisconsin. Instead, it contained simple, commonsense reforms to balance the interests of taxpayers with the interests of government employees.
- Lower capital gains tax rates encourage businesses to start hiring as they are taxed less for pursuing new, job-creating projects.

WHAT IS IN ACT 10?

Act 10 contains two core reforms to control government spending:

Putting Limits on Out-of-Control Collective Bargaining Privileges: Collective bargaining is the process of negotiation between employers and representatives of employees, generally unions. Such privileges have, in the past, been important to protecting workers. However, public employees in Wisconsin had simply taken them too far and abused them at the expense of taxpayers. Act 10 put limits on these collective bargaining privileges for state employees. These employees can still use collective bargaining to negotiate on wages, but not benefits or pensions, which have become exorbitantly expensive in recent years. This is not a groundbreaking reform: under current law, federal government employees cannot use collective bargaining to negotiate on benefits either. In addition, wages are capped to grow at the rate of inflation, reining in compensation growth for government workers that outpaced growth in the private sector.

Changes to Benefit Funding: Act 10 requires that public employees contribute 5.8 percent of their salaries to pension benefits and contribute at least 12.6 percent of their total health insurance premium costs. These contributions are still just a third of the size of contributions in the private-sector, and 25 percent less than the 500 largest employers in southeast Wisconsin.

IS IT WORKING?

The answer is a resounding yes! With over 100 school districts incorporating these reforms, local governments have saved more than $300 million in 2011 (1). This is in addition to the $300 million saved by the state itself.

For instance:

• The Kaukauna School District had a $400,000 deficit for the upcoming school year and was going to be forced to lay off teachers. By instituting the changes to pension and health care payments, Kaukauna swung to a $1.5 million surplus allowing class sizes to fall and was able to institute over $300,000 in merit pay for teachers.

• By incorporating the new changes to employee health care and pension contributions, the Green Bay School District was able to save over $11 million dollars allowing the district to focus on spending more dollars in the classroom.

WHAT WOULD HAVE HAPPENED WITHOUT ACT 10?

Illinois legislators took the opposite approach and filled their budget shortfalls by using accounting gimmicks and tax increases. The state is now even closer to economic disaster.

While no one has a crystal ball, residents of Wisconsin need to look no further than to its southern neighbor Illinois. Instead of focusing on reform and cutting spending, last year Illinois legislators took the opposite approach and passed a budget full of accounting gimmicks and tax increases. The state raised income taxes by 67 percent on individuals and 46 percent on businesses last January (2). The state is now even closer to economic disaster with billions of dollars of unpaid bills. Originally a practice for times of extreme financial crisis, Illinois now regularly delays payment to vendors by months and currently has more than 150,000 pending invoices (3).

Illinois also led the nation with an increase in its unemployment rate in 2011. It was one of only four states to earn such a dubious honor. Additionally, Illinois' debt rating was downgraded to the lowest among the fifty states. Finally, while Wisconsin's rating in the Chief Executive Magazine index for best state business climate rose to 17th, up from 41st, Illinois' rating continued to plummet (4). It is now ranked 48th out of the 50 states.

CONCLUSION

Act 10's simple and necessary reforms saved Wisconsin taxpayers over $600 million in just one short year. Instead of breaking the State of Wisconsin, Act 10 restored the balance between the interests of taxpayers and the interests of public employees. Public employees' compensation packages now more closely match their private sector counterparts, although the public employees still have the better of it. Without this important shift in course, Wisconsin would have continued down the road that Illinois has taken, certainly not the road to economic freedom.

Endnotes:

1. Christian D'Andrea, How Wisconsin School Districts are Saving Money as a Result of 2011's Act 10 Legislation, Mac Iver Institute (September 2011) (online at http://www.maciverinstitute.com/wp-content/uploads/2011/09/Act10Report2.pdf).
2. Joseph Henchman, Illinois Approves Sharp Income Tax Increase, Fourth-Highest Corporate Tax Rate, Ta x Foundation (January 13, 2011) (online at http://www.taxfoundation.org/news/show/26965.html).
3. Amanda Griffin-Johnson, Explore the Numbers Behind Wrong-Way Illinois, Illinois Policy Institute (January 26, 2012) (online at http://illinoispolicy.org/news/article.asp?ArticleSource=4640).
4. Wall Street Journal, The Greece Next Door (January 20, 2012) (online at http://online.wsj.com/article/SB10001424052970204555904577164944279702590.html)