CITIZENS'
Budget
2003–05

A 10-Point Plan to Balance the California Budget and Protect Quality-of-Life Priorities

Reason

The Performance Institute

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Part 5

Create Personnel Reforms and Workforce Incentives

"The report from Inspector General Steve White, prompted by the Board of Prison Terms' request late last year for an extra 24 deputy commissioners to hold parole-revocation hearings, said the board not only doesn't need more employees, but also that it could do its job with about half the officers it has now if they worked harder."

—Sacramento Bee, April 13, 2003

Summary of Citizen Budget Recommendations in This Section:

1. **Enact a 5% Reduction in State Personnel Costs** ($1.1 billion) through attrition, renegotiation of employee contracts, limits on overtime, and reduction in staff levels to compensate for excessive growth in recent years.
2. Overhaul the Department of Personnel's Merit Award Program by creating a real **Employee Performance Incentives Fund** to provide bonuses to employees who identify and enact cost-saving measures…and have documented accounting to prove savings. (Savings: $2.3 billion)
3. Implement **Employee Performance Contracts** for every employee in state government to hold them accountable for clear and transparent performance goals.
4. Enact **Managerial Flexibility Legislation** that restores authority of Department and program heads to effectively manage the state workforce.
5. Adopt **State Employee Retirement Reforms**—adjusting benefits and allowing partial privatization of retirement funds that would allow beneficiaries greater freedom to invest in their own retirement.

California Budget FACTS:



5%

Average salary increase slated for state employees in fiscal year 2003-04

157%

Increase in CHP spending on staff benefits over the past three years

23%

Percentage of portfolio assets lost by the PERS pension fund in the past two and a half years

44,000

Number of employees added to the state payrolls between 1998 and 2002

The state desperately needs to improve management of its personnel if it is to address the structural nature of the budget problem—short term (labor costs) and long term (retirements). Why focus on personnel reforms? First, a significant amount of the California state budget is devoted to personnel costs. It is estimated that California will spend approximately $17.4 billion in salaries and wages ($22 billion when including benefits) in fiscal year 2002-03 for the state's 327,000-plus workforce.[40] Second, employee management is the key to



"State and local [government] jobs were the fastest growing job category in the state in 1999, 2000 and even 2001."

– Ross DeVol, The Milken Institute

improving the performance of state programs—and identifying cost savings. Finally, like any organization, state government must view its employees as a key asset—to be cultivated and well managed.

Unfortunately, California's personnel management system is in complete disarray. The growth in the number of state employees has been appalling—and unjustified given the increase in state population and program workload. Even worse, compensation packages and retirement benefits of many state employees (as determined by union contracts) are completely unacceptable. Finally, due to constraints imposed by one-sided employee union contracts, an inflexible work environment limits the ability of agency managers to supervise and manage their employees.

As the economy (and state tax revenues) surged from 1999 through 2001, the public workforce grew like the rest of the government. What is troubling is that the state workforce has continued to grow since the advent of the economic downturn. During Governor Davis's first four-year term, nearly 44,000 employees were added to the state's payroll.[41] In fact, according to Ross DeVol of The Milken Institute, even during the height of the tech boom, "State and local [government] jobs were the fastest growing job category in the state in 1999, 2000 and even 2001."[42] Furthermore, this state job growth was not only an increase in absolute terms, but also in per capita terms. State employees per 1,000 population grew each year, from 8.6 to 9.3, during the Governor's first four years in office.[43]

California should thus strive to reduce its government workforce. A 5 percent reduction in personnel costs from personnel reductions would produce $1.1 billion in savings. Such a proposal is modest, given that Governor Davis himself has just ordered department heads to develop plans to reduce labor costs by 10 percent.[44] In Florida, Governor Jeb Bush is in the middle of four years of 5 percent cuts in personnel costs *each* year. Yet, Governor Davis is proposing to only cut a mere $470 million through future labor negotiations—not the full 10 percent. This raises a serious question: what if state agencies can actually achieve a full 10 percent reduction? How about a 5 percent reduction?

Achieving a Five Percent Reduction in Personnel Costs: Human Capital Planning and De-layering

Managing a workforce effectively begins with analyzing how many workers are needed to perform the agency's mission and where best to deploy them. This requires workforce analysis and the development of a comprehensive agency Human Capital Plan. Each state agency should be required to devise and implement Human Capital Plans that detail the kind of workforce skills that are needed, how many employees are needed for each program, and how those employees will be recruited, retained and trained.

From the Human Capital Plan, the agency should de-layer the levels of middle and upper management to streamline reporting levels. As in any enterprise, managerial positions tend to carry higher salaries. Personnel cost reductions can best be made through a robust de-layering initiative. Moreover, human capital planning and de-layering will enable each agency to confront projected workforce retirements and the pending "human capital crisis" facing government Long-term.

Achieving a Five Percent Reduction in Personnel Costs: Eliminate Vacant Positions

The first and easiest way to reduce personnel costs by 5 percent is to eliminate vacant positions. Indeed, the state has been grappling with the discovery and elimination of a large number of vacant positions for the past 6 months—with varying degrees of success depending on the agency in question. Vacant positions, which have resulted in waste from mismanagement from the concurrent use of overtime pay, and which have been used to circumvent the legislature's intended budget appropriations, must be aggressively detected and eliminated. While efforts to abolish more vacant positions would not result in immediate savings, the state would likely achieve savings of at least $300 million in fiscal year 2004-05 and additional savings in the future, pending the creation of an effective process for detecting vacant positions and reporting them to the legislature.

Vacant positions have become a major problem in recent years, although steps are being taken to address the issue. These "phantom positions" arise when agencies are unable or unwilling to fill positions authorized (and paid for) in the budget. The Bureau of State Audits (BSA) issued a report on vacant positions within the Department of Corrections in November 2001 that caused quite a stir. Among its findings, the Bureau concluded: "The department could save the state about $42 million in overtime costs by filling roughly 1,500 of its 2,300 vacant custody positions."[45]

That agencies waste money on overtime pay while maintaining these vacant positions is not the only problem, though. The BSA conducted a broader study of the phantom position problem and issued a report in March 2002 revealing that a substantial number of vacant positions existed in the state government, that departments routinely misused personnel transactions to circumvent the abolishment of vacant positions, that changes in the law to address the problem had only been partially successful, and that a reliable method of tracking vacant positions still had not been established.[46]

Although some agencies have difficulty filling some positions, the six-month legal limit for positions to remain vacant before being eliminated should provide more than enough time even for tough hires—especially in this weak economy. Furthermore, exemptions may be obtained from the Department of Finance for special circumstances.

Far too often, however, positions are not held vacant because an honest effort to fill them simply proved unsuccessful. Rather, agencies have made it a practice to deliberately maintain a large number of vacant positions so they may bypass the intended budget process and use the funding slated for those employees' compensation for programs and purposes not authorized by the legislature.

In order to preserve these unfilled positions and keep from triggering the six-month rule, employees are frequently shifted from one position to another within the agency. From the examples provided in the BSA report, it appears that this practice has evolved into something of an art. For example, the report noted that in one instance:

> *The Department of Industrial Relations (Industrial Relations) moved one employee 10 times within 16 months. In fact, on several occasions, it initiated transactions on the same day to move the employee in and out of the same position. Industrial Relations moved the employee in this manner to preserve six vacant positions from abolishment.*[47]

Of course, this type of budgetary game takes some time to perform, which detracts from the core missions the agency is supposed to be advancing. Again, the BSA report provides suitable examples, this time from the Employee Development Department and the Water Resources Control Board:

> *[Employee Development] Department staff told us they devote a significant workload to avoid having positions abolished, especially since the implementation of the shorter vacancy period in July 2000. For example, the EDD reported that it used 1,840 hours during fiscal year 2000–01 to monitor and preserve its vacancies. It begins its preservation process in October and continues efforts through the remainder of the fiscal year to ensure it does not lose positions. In another example, the Water Resources Control Board stated that its focus on filling vacant positions within the six-month period resulted in a 20 percent to 30 percent increase in existing workload for the analyst responsible for position control.*[48]

Such revelations prompted a crackdown on vacant positions. Control Section 31.60 of the Budget Act of 2002 required the Director of Finance to abolish 6,000 vacant positions, excluding those in the areas of public safety and 24-hour care, that existed on June 30, 2002. On November 14, 2002, the department of Finance announced that it had identified 6,129 positions and would be eliminating them effective July 1, 2003.[49] This will result in a savings of $300,447,000. This is on top of the elimination of 6,600 such vacancies announced previously, yielding a three-year total of over 12,700 vacant positions eliminated.

The administration is to be commended for these efforts, but there is still much work to do. Chapter 1023, Statutes of 2002, directs the Department of Finance to eliminate at least 1,000 additional vacant positions by June 30, 2004. Given the results of prior BSA reports, which were far from comprehensive, this goal seems too conservative. Rather, the government should shoot for the abolishment of another 6,000 vacant positions. This would return approximately $300 million in additional savings, although this savings would not be realized until the 2004-05 fiscal year.

To ensure that this goal is feasible, and to achieve greater savings from the elimination of vacant positions in the future, the state will have to develop an ongoing monitoring system to prevent the types of job-shifting and other maneuvers intended to circumvent the law and inflate agency budgets. Only then will the legislature have the accurate information it requires to determine legitimate agency needs and ensure that appropriations go to those areas of greatest need and highest priority.

Achieving a Five Percent Reduction in Personnel Costs: Renegotiate Labor Contracts

Renegotiating employee contracts is another key element to reducing personnel costs. Part of the trouble the state has had with its personnel cost containment stems from unreasonable concessions to labor unions. During the past two years, several ill-advised contracts have been signed with various labor unions providing exorbitant benefits for some employees at a time when the state should be looking to contain costs as much as possible. The proposed budget-year cost of scheduled employee wage increases is estimated to be $532 million.[50]

Table 4 lists the 21 bargaining units with which the state has to reach agreement on labor contracts. Analysis of two labor contracts provides a mind-numbing demonstration of how inappropriate and wasteful these contracts have become.

Table 4: California State Government Collective Bargaining Units			
Bargaining Unit	**Employee Description**	**Union**	**Contract Agreement Terms**
1	Professional, Administrative, Financial, and Staff Services	California State Employees Association (CSEA)	1/31/02 – 7/2/03
2	Attorneys and Hearing Officers	California Attorneys, Administrative Law Judges and Hearing Officers in State Employment (CASE)	7/1/01 – 7/2/03
3	Education and Library	CSEA	1/31/02 – 7/2/03
4	Office and Allied	CSEA	1/31/02 – 7/2/03
5	Highway Patrol	California Association of Highway Patrolmen (CACHP)	7/3/01 – 7/2/06
6	Corrections	California Correctional Peace Officers Association (CCPOA)	7/1/01 – 7/2/06
7	Protective Services and Public Safety	California Union of Safety Employees (CAUSE)	7/1/01 – 7/2/03
8	Firefighters	California Department of Forestry Firefighters (CDF Firefighters)	7/2/01 – 6/30/06
9	Professional Engineers	Professional Engineers in California Government	Effective 9/1/02
10	Professional Scientists	California Association of Professional Scientists (CAPS)	7/1/01 – 6/30/03
11	Engineering and Scientific Technicians	CSEA	1/31/02 – 7/2/03
12	Craft and Maintenance	International Union of Operating Engineers (IUOE)	7/3/01 – 7/2/04
13	Stationary Engineers	IUOE	7/1/02 – 7/2/03
14	Printing Trades	CSEA	7/18/02 – 7/2/03
15	Allied Services	CSEA	1/31/02 – 7/2/03
16	Physicians, Dentists, and Podiatrists	Union of American Physicians and Dentists (UAPD)	7/3/01 – 7/1/03
17	Registered Nurses	CSEA	7/8/02 – 7/2/03
18	Psychiatric Technicians	California Association of Psychiatric Technicians (CAPT)	9/15/01 – 7/2/03
19	Health and Social Services – Professional	American Federation of State, County and Municipal Employees (AFSCME)	7/3/01 – 7/2/03
20	Medical and Social Services	CSEA	7/18/02 – 7/2/03
21	Educational Consultant and Library	CSEA	1/31/02 – 7/2/03

Source: Department of Personnel Administration, http://www.dpa.ca.gov/collbarg/contract/bumenu.shtm#6.

Case Study #1: California Highway Patrol (CHP)

- CHP officers currently receive fitness bonuses of $130 per month—$1,560 per year—even though the fitness tests used to qualify officers for the bonuses were discontinued in 1995.[51] Active-duty officers are granted the bonuses so long as they have passed one of these tests anytime in their careers. Apparently, the policy was changed because too many officers were suffering injuries while playing sports such as football, basketball, and racquetball during off-duty hours and then claiming workers' compensation because, they argued, their off-duty training was necessary in order for them to pass the fitness test.
- Expenditures on staff benefits grew significantly over the past three years, from $110 million to an estimated $283 million, a 157 percent increase (see Table 5).[52]
- Retirement costs have grown the most dramatically during this time, as stock market losses have depleted the surplus in the CHP Public Employees' Retirement Account, thus shifting a greater financial burden onto the Motor Vehicle Account, which is funded mostly from vehicle registration and driver's license fees.[53]
- Health insurance costs have risen 24 percent over the three-year period. Workers' compensation costs have skyrocketed 49 percent and will likely increase even faster than the Governor's Budget projection due to recent workers' compensation benefits legislation.[54]

Table 5: Costs for CHP Staff Benefits (*2000-01 Through 2003-04 (In Millions)*)

Compensation Category	2000-01	2001-02	Estimated 2002-03	Proposed 2003-04
Retirement	$3	$40	$142	$142
Health Insurance	51	54	63	67
Workers' Compensation	41	41	61	59
Other	15	21	17	19
Totals	$110	$156	$283	$287

Source: Legislative Analyst's Office, "Analysis of the 2003-04 Budget Bill," P. A-77, http://www.lao.ca.gov/analysis_2003/transportation/transportation_anl03.pdf.

Case Study #2: Correctional Peace Officers

- A January 2000 report by the Bureau of State Audits (BSA) found that the Department of Corrections had been mismanaging its sick leave and other personnel costs. The report stated, "The [Department of Corrections] could save about $17 million a year if average sick leave use among custody staff dropped to 48 hours per year and roughly $29 million a year if it reduced its average sick leave usage to a level compatible to that of the California Highway Patrol."[55]

- The new labor contract provides salary increases of about one-third by 2006 (veteran correctional officers will be paid at least $73,428 per year by 2006), and allows guards to retire at age 50 and receive up to 90 percent of their last salary.[56]
- The total cost of the new wage package to taxpayers will be about $700 million per year.[57]
- Political contributions totaling $2.6 million from the CCPOA to Governor Davis, combined with the approval of the compensation package and a decision by the Governor to close several privately-run prisons housing 1,400 low-security inmates at a cost of $16 million per year to taxpayers, have led to accusations of improper political dealings.[58]



State Prisons: Soaring Sick Leave

"Use of sick leave and resultant overtime in the state prisons system increased dramatically in the first four months in 2002 of a new labor contract approved by the Davis administration. A 20 percent hike in sick leave will add $12.5 million to the state budget over a full year. Overtime would be up $58.4 million. The new contract makes it more difficult for prison wardens to clamp down on suspected abuse of sick leave."

Los Angeles Times, June 27, 2002

Despite the egregious examples presented by the two case studies above, employee union representatives contend that you cannot balance the state budget on the backs of its employees—and that employees have already sacrificed pay increases in recent years. We agree with the sentiment of the first part of their argument: budget cuts cannot rest entirely on personnel reductions. However, personnel reductions should be *part* of the solution.

As to the claim that employees have already forgone pay increases, most union contracts are exceedingly generous and have raised state employee pay dramatically in recent years. For example, under existing contracts, most state employees are scheduled to receive a 5 percent salary increase on July 1, 2003.[59] Meanwhile, the federal government is giving its employees barely a 3 percent increase. Finally, for most state employees, the state has actually given a "phantom" raise in each of the past two years by paying portions or entirety of the employee pension contributions. In essence, take-home pay has gone up for state employees even in the last two years.

The Citizens' Budget anticipates that the Governor's proposed renegotiation of employee contracts will meet the cost savings identified in his budget proposal—as well as additional cost savings to contribute to our overall target of a 5 percent decrease in personnel costs beyond the Governor's Budget proposal.

Implement Employee Performance Agreements and Reform the Employee Incentive Plan

The government, like any private firm, must strive to get the most out of its employees. This is best done through individual employee performance contracts that would be used to evaluate and manage each state employee on the basis of performance and results. Toward this end, each state agency should devise a short and measurable performance plan for each state employee to be signed by employees and managers. Should an employee consistently fail to deliver expected performance, corrective action would be taken. Moreover, should an employee exceed goals, financial and non-financial recognition and rewards should be provided.

The Department of Personnel Administration currently operates a program intended to provide financial incentives to employees. The Merit Award Program allows employees to receive between $50 and $5,000 awards, either from the program itself or the agency for which the employee works, for suggestions that result in:

1. Improved procedure,
2. Improved safety, or
3. Cost savings.[60]

Unfortunately, the program is an abysmal failure—prone to fraud and mismanagement. For example, awards are generally no more than 10 percent of the value of the cost savings.[61] Furthermore, officers and employees of the University of California and the California State University are prohibited from participation in the program.[62] This means that some 116,000 employees, representing organizations with a combined budget of nearly $23 billion, are prevented from participating in a cost-savings program. What is more, it is uncertain whether many state employees that are eligible to participate in the program are even aware of its existence.

Finally, any employee incentive program must adequately address the potential for fraud and erroneous bonus awards. For example, cost savings must be calculated based on baseline spending numbers, not projected spending. This could be confirmed using activity-based costing, which allocates overhead costs to specific products instead of lumping together all overhead costs, thus providing a more accurate accounting of costs than traditional cost accounting.[63]

Increasing the amount of the award for cost savings to 20 percent of the amount of the savings would provide a much stronger incentive for generating innovative cost-saving solutions. In short, the greater the award, the greater the supply of ideas. The new program still would not cost the state anything but a negligible amount for a board to determine the legitimacy and feasibility of suggestions (which could also be done by each individual agency), since it would only be surrendering a portion of any additional *savings* achieved. Note that the corresponding agency or the state would still realize two-thirds of the total savings. The new employee cost-savings incentive program would be open to all employees, and agencies would be directed to inform their employees of the program.

If this new incentive program achieved only 3 percent additional savings on the entire state budget, that would represent $2.9 billion in savings, $579 million of which would be awarded as bonuses to the employees responsible for the savings and $2.3 billion of which would be realized by the agencies and the state.

Managerial Flexibility: Giving Managers the Tools and Freedom to Manage

Consistent with providing employee incentives, the state should provide managers greater flexibility and authority to manage their programs in the most cost efficient and performance-based ways. Unfortunately, a number of statutory and political forces limit state manager flexibility. For example, labor contract restrictions include limitations on the state's managerial control and hiring and firing decisions. Despite the soaring use and abuse of sick leave and overtime in the state's prison system, the new labor contract the state

reached with the peace officers' union restricts the ability of prison wardens to address the problem. In the end, most state managers do *not* feel as though they can effectively manage their employees because the tools of "consequence management" (hiring, firing, approval of leave, employee performance evaluations) have been taken from them. As a result, the Citizens' Budget strongly encourages the passage of legislation that prohibits the state from entering into contracts or agreements with unions that limit managerial flexibility to evaluate, hire, reward, manage or remove employees.

Retirement System in Need of Reform

Poor investments, general asset erosion from the stock market decline, and rising costs from a trend toward earlier retirement will likely render the state's retirement systems, such as the California Public Employees' Retirement System (PERS) and the California State Teachers' Retirement System (STRS), unsustainable in their current form. PERS, in particular, has garnered a great deal of unwanted press from accusations of political activism and scandal. It is time that legislators take a closer look at the state's retirement systems and use the current budget situation as an opportunity to enact real reform to ensure the security of the pension and health benefits of the state's employees and retirees.

PERS was established in 1932 to administer pension plans for state employees. In 1962, state law expanded its role to provide health benefits to state employees as well. Today, PERS is the nation's largest public pension system. It manages the pension and health benefits of approximately 1.3 million California public employees and retirees and their families.

Poor Portfolio Performance

As of January 31, 2003, PERS managed an investment portfolio of $131.4 billion.[64] Over the past two and a half years, however, the pension fund has declined 23 percent and is now down to its lowest level since early 1998.[65] It has also underperformed other large pension funds during this time.[66] In response, PERS has decided to recoup its lost assets by engaging in higher risk, higher return investment strategies and by increasing employer contributions to the fund. According to *The Wall Street Journal*, "state school districts, for example, have been told [they] will have to start contributing about 2.8 percent of payroll."[67]

Scandal and Inefficient Management

PERS has been plagued by other forms of scandal as well. In 1998, it was discovered that several trustees had taken expense-paid trips and received gifts from parties attempting to do business with the fund.[68] Former State Controller Kathleen Connell successfully sued PERS, alleging that it had violated state law by establishing its own pay system and granting 11 percent pay raises to investment managers and a 400 percent increase in per diem pay—increasing annual compensation from $7,500 to $30,000—for five board members.[69] Connell, it should be noted, also had a seat on the PERS board. In addition, just within the past couple of years, there have been several allegations of cronyism and conflicts of interest. Major investments have been made in companies and partnerships owned by major contributors and fundraisers of Governor Davis and members on the PERS board.[70] Moreover, members of the PERS board are permitted to own stock that is also held by PERS, further increasing the prospect of corruption within the fund.

Restoring the Tier 2 Benefits Package: The Senate Republicans' Proposal

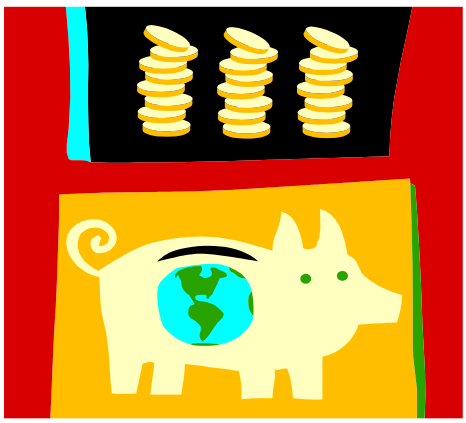
Senate Republicans have suggested that the system be improved by restoring the Tier 2 retirement benefits package, which was done away with in the late 1990s when the PERS fund, like the stock market in general, was soaring. The Tier 2 package provides a reduced set of retirement benefits to new employees and was implemented in the late 1980s as a cost-savings measure.

Restoring the Tier 2 benefits package to new employees would allow the state to allocate benefits based on tenure, which might be considered a more fair approach than the current system maintains. This also would put the state more in line with private sector retirement benefits practices. In addition, restoring Tier 2 benefits would result in cost savings, as newer employees would be receiving fewer benefits than their veteran counterparts.

Private Retirement Accounts: An Alternative to Address Issues of Cost and Politics

While restoring the Tier 2 benefits package would certainly help the state save on costs, it would do nothing to address the problems stemming from political ties and conflicts of interest. Any legitimate reform proposal must recognize that "PERS is fundamentally a political organization. It is the monopoly provider of pension services to California's state public servants. Its board is composed overwhelmingly of political types: elected officials and political appointees. And it has close union links."[71] That is a dangerous combination for an organization that has the power and responsibility to invest for the retirement of 1.3 million beneficiaries.

The problems at PERS stem from allowing government officials to use retirement investments as social and political tools in the first place. As a *New York Times* article illustrates, "Some California public employees view the mood at PERS with alarm … saying their retirement nest eggs are not suitable for advancing a social cause, worthy or not."[72] Referencing the political scandals at PERS, *The Wall Street Journal* editorial asserted: "If PERS were a private investment fund, this would all be hilariously high comedy. But PERS is not a public fund. Ultimately, the buck stops with the taxpayers of California. For them, it might turn out to be pure tragedy."[73] And that is exactly the point: PERS must be reformed so that it can place its focus rightly on protecting the retirement benefits of its beneficiaries, not on satisfying special interests.



"If PERS were a private investment fund, this would all be hilariously high comedy. But PERS is not a public fund. Ultimately, the buck stops with the taxpayers of California. For them, it might turn out to be pure tragedy."

–"Cronyism at PERS," *The Wall Street Journal*, January 31, 2003

Instituting a conflict of interest rule that prohibits board members from holding stocks that the fund also owns is just a beginning step. In order to protect its employees' nest eggs from the waste and politics of its public pension system, California should take the lead in experimenting with private personal retirement accounts. Such accounts would allow beneficiaries to invest a portion of their accumulated benefits on their own, separate from the decisions of the PERS board. The portion to be privatized

would be small at first, and expanded later if the pilot program proves successful.

The poor performance of public pension systems at the state and federal levels, in conjunction with successful pension privatizations and other nations, have caused pension reform to go from the untouchable "third rail of politics" to a viable option. Indeed, partial pension privatization was a significant plank of President Bush's campaign platform and continues to be a focal point of his Administration.

A system of personal retirement accounts would not only permit beneficiaries to seek returns that are typically greater than those of public pension system portfolios, it would allow individuals to better manage their own levels of risk, thus eliminating concerns such as the questionable risky investments made by the PERS board of trustees.

Finally, the very personal nature of one's retirement plan cannot be overlooked. People wish to structure their plans differently because they have different goals, needs, and financial situations. The state's one-size-fits-all system simply does not adequately address these personal issues. As with taxes, government officials must remember that the money they are managing belongs to the beneficiaries, not to them. The argument is perhaps best summed up by a Cato Institute article:

> *Do individuals decide how their money is to be invested, or do politicians make those decisions for them? Do individuals decide whether their money should have a social conscience, or does someone else force his own social views on them?*
>
> *Under a system of personal retirement accounts, nothing prevents a worker from making socially responsible investments, according to his own definition of social responsibility. But nothing forces him to, either. Government directed investment doesn't just make lower returns; it turns personal decisions into political issues, with results like those seen in California.*[74]

Acknowledging the Resistance from Unions

Complicating all of these reforms will be the influence of labor unions. Rather than permitting individuals to negotiate freely on their own and to come to a voluntary agreement with the state for their wages, labor unions compel membership and/or the payment of representation fees—even for those that do not wish to be a part of the union—in order to act as the negotiating agent for people wishing to take certain jobs. This violates the rights of those that do not wish to be members of the union to contract for their employment on their own terms.

Unions rationally try to get the highest wages and best benefits for their members. When dealing with the government, however, there is necessarily a political component introduced. Oftentimes, political connections and power bases result in the adoption of unreasonable agreements that provide wages and benefits well in excess of the value of the same labor in the private sector. The use of compulsory dues for political activities that some union members may not agree with is another example of injustice and the corruption of the political sphere with which unions are interlinked.

Just as the government has the right to recognize a union as the agent for some of its employees, however, it should also have the right not to recognize a union if it deems the union's demands unreasonable or otherwise contrary to the interests of the state. The state should consider moving to a non-union system of labor contracting. Workers' fundamental rights and adequate working conditions would still be protected by

numerous existing laws and they would have the added freedom to work, or not work, based on employment offers by the state, and to refrain from supporting political causes with which they disagree through the absence of compulsory union dues. The state would benefit by gaining managerial flexibility more on par with the private sector (with which it competes for employees), which would allow it to more easily eliminate inefficiency and to more quickly adjust to financial emergencies.

The Citizens' Budget is not anti-union, but it is pro-taxpayer and pro-state worker. As such, we believe unions should be allowed in state government, but should also be closely monitored. Most importantly, Sacramento decision-makers, the media and the general public should always be on-guard for sweetheart employee contracts that do not represent the best interest of taxpayers and people who depend on government services.