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Cuts to public employee compensation damage Wisconsin's economy

People in Wisconsin may disagree about a lot of things — but everyone wants more jobs in the state. While newly elected state leaders have promised to boost job numbers in Wisconsin, one of their top policy priorities is cutting benefits for public employees. Far from growing the economy, this will have the opposite effect by destroying 9,000 private sector jobs across the state.

Plans are underway to cut back on compensation for people working in the public sector, through mandatory furlough days, higher insurance payments and increased pension contributions. But an analysis of how this proposal impacts the overall economy by the Institute for Wisconsin's Future (IWF) shows that it would be a lose-lose strategy for Wisconsin.

Cutting household income for state, local and school district public-sector families, as proposed by Gov. Scott Walker and other political leaders, will cost the state \$1 billion in reduced economic activity. This decrease in consumer spending and the subsequent loss of jobs in Wisconsin is the last thing we need as the recession grinds on.

The new IWF report, *Unintended Consequences: The economic impact of cutting public sector wages and benefits*, shows that the proposed cut in public worker compensation would result in the loss of \$600 million a year in economic production in the private sector. It would eliminate \$42 million in property taxes or shift them to other taxpayers and increase the state unemployment rate. Every county in the state would suffer with reduced economic activity and less local revenue.

According to IWF Research Director Jack Norman who analyzed the data, "The *cut-compensation* strategy is based on the belief that public sector employment is somehow 'different' from employment in the private sector. Under this view, cuts to public employees are painless to the rest of the state's residents. In fact, reducing compensation for state and local employees carries a large and hidden cost."

"Public sector workers are consumers just like their neighbors whose paychecks come private employers. When public employees lose income, they cannot afford to buy as much from the grocery store, the furniture outlet or the car dealer. Cutting the disposable income of state, local and school district public-sector families undermines purchasing power, the most crucial element in economic recovery and growth."

The economic ripple effects would be no different than a series of plant closings in every county in the state. For example, in Brown County the job loss would be the same as losing the entire payroll of the Green Bay Fleet and Farm. In Dane County, it would be like losing the payroll of Dean Health Systems. In Marathon County, like losing Kraft Foods. This "compensation cut" plan is a failed strategy that blocks economic recovery in Wisconsin. The report is available on the Institute for Wisconsin's Future's web site: www.wisconsinsfuture.org.

The Institute for Wisconsin's Future is a non-profit research and public education organization based in Glendale, a suburb of Milwaukee. Its work is funded primarily by national philanthropies.

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