# Review of *Rethinking Public Sector Compensation: What Ever Happened to the Public Interest?*

by Thom Reilly

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In 2007, the stock market started a slow decline and reached a floor early in 2009 before it began to reverse itself. This negative cycle had catastrophic effects on housing markets, employment, and every other economic engine that churned capitalism around the world. As a result, public sector compensation in the United States became an increasingly important topic as state and local governments sorted through budget austerity. In short, this book examines how public sector employees (primarily state and local) are compensated, rewarded, and managed. The author focuses on the evolution of public sector employment and the reforms needed to remedy the problems that currently exist. In so doing, he focuses his efforts on five things that he perceives are at the crux of the issue: the current recession, the media, lack of transparency, rise in public sector unions, and bureaucratic rules.

Reilly opens the book with a well-written essay on the effects of the "Great Recession" on public sector employment and how states have reacted to the crisis. He begins with a historical account of state spending in the mid-1990s through 2007. He notes that spending increased 86.5% concurrently with budget surpluses in 42 states. During the same period, public sector employees' salaries also grew by 17.9%. However, by the time the subprime fiasco began, it was too late for policy makers to react. Before anyone knew what to do, Lehman Brothers filed for Chapter 11 bankruptcy (the largest in U.S. history) in 2008. Within weeks the Dow Jones Industrial average began its descent, which affected every major market of the economy. History now tells us that the worst part of the recession lasted from December 2007 to June 2009. By FY 2010, states reported nearly $68 billion in budget shortfalls despite receiving $123 billion in American Recovery and Reinvestment Act of 2009 (ARRA) dollars. States reacted to the budget shortfalls by implementing user fees, raising higher education fees, raising court-related fees, instituting furloughs, reducing salaries, cutting state employee benefits, privatizing services, tapping rainy-day funds, and consolidating services, in addition to other cost saving measures.

The second chapter is a fairly brief historical analysis of the civil service system and how it has negatively evolved to a system that emphasizes job "security and longevity" rather than focusing on performance, entrepreneurial thinking, and the creation of networks that center on innovation and the retention of young, well-trained employees (p. 39). Reilly recommends reforms dealing with at-will employment of governmental employees; mandatory pay-for-performance systems; implementing broadbanding and more flexible classification systems; eliminating preference based on seniority and bumping or last-hired, first-fired practices; and creating new institutional arrangements where performance evaluations reflect a system that gives managers the ability to manage across boundaries.

Reilly next considers public unions and how they have evolved over time, variations between private and public sector collective bargaining, and the political clout exhibited by public sector unions. He argues that collective bargaining is a promising tool when it is used to balance power between competing interests. However, he says collective bargaining is much more difficult to use in the public sector when employees have built-in civil service protections. That is, collective bargaining can reduce benefits to citizens and raise the cost for taxpayers. He also argues against applying private sector collective bargaining schemes to the public sector, because the private sector operates within a market economy and the public sector operates as a monopoly. He suggests that policy makers should be more open to negotiating alternative models of service delivery. For example, he posits that "managed competition should become the norm rather than the exception" (p. 72).

The fourth chapter is the first to underscore the need for a new method of compensation in the public sector—a method based on empirical research that compares pay differences between public and private sector employees. Reilly uses the Iron Triangle to demonstrate the lack of transparency in these discussions as politicians, bureaucrats, and labor representatives make decisions on compensation and benefits to their employees. He found that public sector employees at all levels earn a higher wage than those at similar levels in the private sector, and the greatest disparity occurs at the federal level. The most significant factor in this disparity was education. Those without a college degree are better off working for the federal government, while those with college degrees are worse off working in the public sector.

In chapter 5, Reilly continues this discussion by comparing public and private sector compensation with the intent to assess the cost of lifetime compensation. In his analysis, he uses a blue-collar (janitor) and a white-collar (engineer) employee in both sectors for his comparison. In each scenario, he found that over a lifetime, the public sector employee is better off. However, he does offer a cautionary note: "This model was built to display the difference in the various compensation tools used by employers in both sectors of an economy. One cannot use the model and its inputs to assume that the outputs are concrete on a national or regional level" (p. 100).

In chapter 6, the author makes several recommendations to improving the public pension system: (a) employees need to work longer; (b) the retirement age should be raised; (c) state and local governments should fully fund their pension and OPEB (post-employment benefits) obligations; (d) employee contributions for both retirement and OEMP benefits should increase to match rising costs; and (e) the level of transparency in the process needs improvement. Specifically, special interest constituencies, as well as politicians, appear to be well poised to reap the benefits of pensions without consideration of the long-term implications. In short, Reilly thinks the veil of secrecy should be lifted. He falls short of recommending hybrid plans that mix defined benefits and defined contribution plans, but he does cite several states that have employed this method in recent years.

Overall, this is an excellent, unbiased analysis of the public and private compensation system in the United States. The author provides a detailed analysis and uses a model that is easily understood by the lay reader. His recommendations are clear and defensible. I highly recommend the book for students in graduate-level courses in human resources as well as for elected officials who are interested in bringing about positive change in government.

## Footnote

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