THE PRIVATIZATION OF THE PUBLIC WORKPLACE

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ABSTRACT
This article examines the argument that civil service systems should adopt market-based human resource management policies and practices similar to those frequently used by for-profit private organizations, in order to improve the efficiency and effectiveness of public organizations. The article also examines the argument that public employees now typically enjoy job security and lucrative benefits not generally available to private sector employees, and that this situation needs to be adjusted in order to bring public sector compensation in line with private sector pay and benefits. The article argues that critics of the independence of civil servants in the United States have intentionally perpetrated the lie that incompetent, corrupt, and lazy individuals make up the majority of public employees. The fact that private sector employees have seen their economic well-being deteriorate over recent decades has made it much easier for critics of public employees to make public employees scapegoats for economic trends. The article also argues that if this trend continues, it presents a direct threat to the long-term independence of civil servants in the United States and opens the way for ideologically driven individuals and interest groups to again gain control over public agencies.

INTRODUCTION
Almost every day, civil service employees in the United States face intense criticism for being far less efficient than private sector employees (Frank & Lewis, 2004). The media depict public employees as lazy, corrupt, and not accountable to anyone. Cheerleaders for private sector human resource management (HRM)
policies and practices maintain that public agencies find it next to impossible to fire their employees due to job security protections (Friedersdorf, 2013). This has led to calls to strip public employees of their job security and force them to face the same level of employment insecurity faced by their private sector counterparts (Bowman, 2002; Green et al., 2006).

Largely rejecting the importance of public service motivation (PSM) as a key factor in the motivation of public employees (Taylor & Westover, 2013), advocates of market-based public sector HRM policies and practices maintain that economic incentives drive worker productivity. As a result, advocates of market-based employee motivation models often maintain that “[l]ife in the market is all about survival—people as well as firms must compete or fail” (Green et al., 2006: 316). Following this line of reasoning, fear of being out on the street without a job provides the best way to motivate employees in the public as well as the private sector. Despite considerable research showing that intrinsic rewards provide greater motivation for public employees than for private employees (Frank & Lewis, 2004), pressure continues for governments to make greater use of “extrinsic rewards and punishments” to motivate their employees (Frank & Lewis, 2004: 39). The new public sector managerialism requires the replacement of seniority and job security as essential HRM policies and practices with performance and individual accountability enforced by market forces (Feldheim, 2007).

Critics of public sector HRM policies and practices also allege that the vast majority of public employees receive benefits that private sector employees only dream of (Biggs & Richwine, 2012). Not surprisingly, the widespread acceptance of this myth has led for calls to significantly reduce public employee pension benefits. Beginning in the 1970s, “the predatory globalization of capitalism” put tremendous pressure on private sector wages and compensation in the United States and across the world (Farazmand, 2012: 489). Corporations fled heavily unionized Northeastern and Midwestern states for friendlier anti-union-right-to-work states heavily concentrated in strongly anti-union Southern states. Many large corporations also outsourced the manufacture of goods overseas to take advantage of much lower labor costs. By the early 1980s, many Americans found themselves working longer and longer hours for the same amount of pay (Hacker, 2008; Wallulis, 1998). They also found themselves having to meet much higher performance goals in order to keep their jobs.

Out of the race to the bottom emerged the myth that public employees in the United States had become a privileged class. This has led advocates of market-based HRM policies and practices to heap criticism on governments for not eliminating the job security of public employees and for attempting to protect the benefits of public employees (Hess & Squire, 2010; Richwine, 2013). It has also led to demands that public agencies, like private corporations, make much greater use of extrinsic rewards to motivate employees (Perry & Wise, 1990). And just as private sector corporations learned to restructure in order to compete in a global economy, it is argued that governments need to restructure and downsize to reduce
the tax burden on hard-pressed taxpayers. This includes making substantial reductions in public employee benefit programs (Feldheim, 2007).

This article argues that advocates of market-driven public sector HR policies and practices have succeeded in brainwashing much of the media and a significant percentage of the public into believing that governments could significantly increase the efficiency and accountability of public employees by adopting market-based human resource (HR) policies and practices (Moynihan, 2010). The article also argues that ideology rather than objective evaluation of public sector HR policies and practices has proved instrumental in the crusade to get governments to adopt market model HR policies and practices. Finally, the article argues that the ongoing effort to force governments to adopt market-based HRM policies and practices will have a devastating impact on public service motivation by deterring individuals committed to public service from entering government service (Moynihan, 2010).

First, the article explores the growth of bureaucrat bashing as part of popular American culture. Second, the article examines the adoption of the HRM policies and practices associated with the establishment of civil service and merit systems and the reasons why these policies and practices became vital to the recruitment and retention of public employees. Third, the article examines the 1970s birth of the market-based government reform movements and their role in undermining public support for traditional civil service systems. Fourth, the article examines the rapid erosion of the private sector job security and workplace that led directly to the perception that public employees had become a privileged class. Fifth, the article examines how the Great Recession (2007-2009) gave birth to a new public pension reform movement directed at placing public employees on a level playing field with their private sector counterparts. Sixth, the article examines the impact of market-based HRM policies and practices on public service motivation (PSM) and the long-term ability of governments to attract and retain committed public servants. In particular, the article examines the debate between advocates of extrinsic and intrinsic rewards over how to best motivate government employees (Perry & Wise, 1990).

FROM HERO TO VILLAIN TO PAWN

Modern public administration and civil servants helped to rescue the United States from the Great Depression, played a key role in the successful prosecution of the Second World War, and met the growing demand of a booming population for efficiently delivered public goods and services. Modern public administration in the United States worked (Farazmand, 2012). Within a remarkably short period of time, corrupt activities by government employees dropped sharply at the federal level and showed significant declines at the state and local levels (Anechiarico & Jacobs, 1994). During the same period, governments came to rely more and more on the expertise of public administrators, teachers, civil engineers, accountants,
lawyers, doctors, planners, social workers, economists, and a multitude of other professionals to administer increasingly complex programs (Mosher, 1978). Many governments also put into place financial management and procurement systems directed at reducing public corruption (Anechiarico & Jacobs, 1994).

By the early 1960s, the vast majority of public employees performed their public duties and responsibilities as merit system or civil service employees. If they decided to make government service a career they could expect a high degree of job security and a comfortable retirement. To a certain degree, public administrators had become heroic figures fighting to do the right thing against resistance by bureaucrats unwilling to protect the public interest and by powerful private special interests trying to prevent government from doing its job (Terry, 1997). In the 1950 film Panic In the Streets, for instance, Richard Widmark played the role of Dr. Clinton Reed, a physician for the U.S. Health Service who raced against time to find plague carriers. Reed found himself forced to overcome resistance from the New Orleans police department to successfully complete his mission. In the 1955 movie Blackboard Jungle, an idealistic teacher, played by Glenn Ford, confronted unruly students in an inner-city school. These films reflected the belief that many public servants viewed public service as a calling and made a difference in the daily lives of those whom they served (Bowman, 2012).

By the beginning of the 1970s, the public image of public employees had changed dramatically. Large segments of the public came to regard public employees as villains rather than heroes. The popular media also turned against public employees and public employee unions with a vengeance. It became next to impossible to find positive images of public administrators and government agencies (Lee & Paddock, 2001).

Bureaucrat bashing became an effective way to deflect the growing anger of private sector workers over the loss of job security, the higher taxes, raging inflation, exploding energy prices, and reduced government services. The dismal 1970s saw the narrative of the selfish public servant play well. If the average private sector American worker found himself or herself without any job security and having to work longer and longer hours for the same or less compensation, why should public employees expect to escape untouched? Government employees became the perfect scapegoat. Bureaucrat bashing became a blood sport for anti-government politicians and the media (Frederickson & Frederickson, 1995).

Elected president in 1980, Ronald Reagan escalated antigovernment rhetoric to new heights (Terry, 1997). Reagan blamed bureaucrats for most of the nation’s problems. During the spring of 1981, when federal air traffic controllers went out on strike in violation of federal law, he gave them a day to return to work and then fired all of them (We the People, 2011). The news and entertainment media bought into Reagan’s antigovernment employee message hook, line, and sinker.

Beginning in the early 1970s, not surprisingly, the entertainment industry increasingly portrayed public employees as lazy, inefficient, and corrupt. The 1973 movie Serpico told the true story of an idealistic young police recruit who
found himself in a cesspool of corruption within the New York City Police Department. After he refused to take kickbacks or bribes, his fellow officers treated him as an outcast. Serpico ultimately became an informant who blew the whistle on widespread police corruption. His police career ended in 1971 when an attacker shot him at point-blank range in the face during a drug raid that went bad. His fellow officers delayed calling for help. Serpico left the police department (Kilgannon, 2013).

Even through the economic recoveries of the 1980s and 1990s, the image of bureaucrats did not improve. With the exception of police dramas, television and movies produced few public employee role models (Holzer & Slater, 1995; Lee & Paddock, 2001). Television shows frequently portrayed government employees as “robotic paper shufflers or abrasive malcontents who are too lazy, apathetic, or self-absorbed to serve the public” (Lichter, 2000: 101). Patti and Selma, characters on The Simpsons, worked as clerks for the Department of Motor Vehicles and treated their customers horribly (Lichter, 2000). Newman, on Seinfeld, reinforced the stereotype of postal service employees as lazy and self-centered.

Yet, a careful examination of the evolution of public service reveals a very different picture of public service in the United States from the late 19th century through the 1960s. Over a remarkably brief period of time, civil service reform succeeded in restoring trust in public service and making government service a respected career choice.

MERIT, MORALITY AND EFFICIENCY: THE RISE OF PUBLIC SERVICE IN THE UNITED STATES

Through the 1820s, family status constituted a major factor in the recruitment and retention of public employees in the United States. To perform their official duties, many public employees needed to know how to read and write and perform basic mathematical calculations (Friedrich, 1937). Due to the lack of universal public education, few adults in the United States could read or write. Well-established families regarded public service as an honorable career. Gradually, the spread of public education enabled a much larger number of Americans to acquire basic literacy. Equally important, by the end of the 1820s, new political parties were frantically looking for ways to recruit and retain experienced political operatives. Providing them with paid government jobs provided the solution. Yet, political parties needed to find a way to make political patronage popularly acceptable.

The “doctrine of universal technical qualification” provided a remarkably simple smokescreen for political patronage appointments (Friedrich, 1937: 14). Due to the spread of public education, a much larger number of Americans could now read and write and had basic mathematical skills. This significantly increased the number of individuals qualified for government service. After his 1828 presidential election victory, President Andrew Jackson effectively articulated
the “doctrine of universal technical qualification” as a justification for replacing experienced government employees. To break the stranglehold of elites on federal offices, governments needed to give the common man the opportunity to serve in government and then return home. The theory of “rotation in office” made sense to many Americans.

But as the century wore on it became increasingly clear that political parties were using the theory of “rotation in office” as a smokescreen for placing entirely unqualified political hacks in government positions. Politicians became dependent on patronage to pay the salaries of “hacks and ward heelers” but also as a source of campaign funds (Hoogenboom, 1959: 302). Local, state, and federal politicians typically required a patronage appointee to pay back 2% to 7% of his salary to the political party that had placed him in a government position (Hoogenboom, 1959). Faced with losing their jobs if election results went the wrong way or they angered their political patrons, many appointees took what they could while they could (Anechiarico & Jacobs, 1994). Trust in government plummeted. The cost of delivering government services exploded (Nigro, 1986). Individuals and businesses faced higher taxes and fees and often the need to pay bribes to get government services. Massive government inefficiency and corruption threatened economic prosperity. It soon became clear “that trained competence [was] essential for a very large number of governmental offices” (Friedrich, 1937: 14). Something had to be done to return integrity and efficiency to government.

The political corruption crisis helped to give birth to the civil service reform movement in the United States (Schroth, 2006). Backed by good government reformers who sought to restore integrity to public service, the movement sought to attract to public service individuals who viewed government service as a calling (Bowman, 2012). This meant protecting “merit system” employees from political pressure or retaliation. To accomplish this goal, the Civil Service Act of 1883 (the Pendleton Act) prohibited patronage appointments to civil service positions and also prohibited partisan dismissals of federal merit system employees.

By the mid-1890s, the Civil Service Commission had put into place a system of practical examinations for merit system applicants. Applicants for clerical positions, for instance, found themselves evaluated on “penmanship, composition, grammar, arithmetic, and American history and geography” (Hoogenboom, 1959: 313). The adoption of practical exams helped to weed out unqualified individuals from merit system positions. Yet, the Pendleton Act “provided no other specific job protection for covered federal employees” (Shafritz et al., 2001: 100). With the exception of protecting federal civil service employees from dismissal for political reasons, federal law did not provide them with any protection from dismissal. Like all at-will employees, they could be dismissed by their agencies for any other reasons.

Employment law scholars trace the employment-at-will doctrine to 18th-century liberalism. English common law had recognized “certain employment relations between employers and employees as inherently equal” (Green et al.,
2006: 308). Under the at-will doctrine, an employer had the authority to fire an employee for any reason. At the same time, employees “possessed the freedom to negotiate, enter into, and voluntarily leave their employment” (Green et al., 2006: 308). Yet, English common law did require employers to provide employees with “reasonable notice of termination” (Feinman, 1976: 119).

During the late 19th century, courts in the United States adopted a much more sweeping interpretation of the at-will employment doctrine. American courts permitted the employer and employee to terminate the employment relationship without any prior notice. This gave industrial corporations broad discretion to hire and fire employees. Equally important, it gave employers the ability to quickly get rid of troublemakers. The fact that large-scale employers often controlled large numbers of jobs in a community did not trouble the courts. American courts accepted the fiction that the at-will employment doctrine protected both employers and employees.

The Progressive Movement (1900–1920) shifted the focus of civil service reform from protecting public employees from political pressure and retaliation to providing merit system employees with much greater job security in order to ensure that governments possessed the necessary expertise to operate efficiently. Progressives embraced the theory of neutral competence as vital to governmental efficiency. Governments needed to staff their departments and agencies with experts that could provide appointed or elected officials with objective information. Armed with objective information, decision makers now had the ability to make the most efficient decisions (Rosenbloom, 2008; Rourke, 1992). Without greater job security, essential experts could find themselves jobless because they had offended some politician or special interest. Thus, the at-will employment doctrine made no sense if governments wanted to retain the services of essential experts. In 1912, Congress passed the Lloyd LaFollette Act, which prohibited the arbitrary dismissal of federal civil service employees. Congress passed the law to protect federal employees from retaliation for testifying before Congress.

Over the next half century, the “for just cause” removal standard became a fixture of civil service systems (Shafritz et al., 2001). Interestingly, the spread of the “for just cause” removal standard did not produce an outcry from individuals or groups alleging that this standard would make it much more difficult to remove incompetent public employees. To the contrary, governments came to regard the standard as essential to the recruitment and retention of employees. Without the adopting of a “just cause” removal standards, governments faced the loss of highly qualified employees for reasons entirely unrelated to their day to day performance.

The widespread adoption of the “for just cause” removal standard accelerated the divergence of private and public sector HRM policies and practices. Even though private sector collective bargaining agreements provided union members with some protection from arbitrary dismissal, the vast majority of private sector employees had little protection from arbitrary termination (Blades, 1967). The
“for just cause” removal standard offered potential public employees something the private sector almost never provided: job security.

However, public sector employees, like others, still suffered from low pay. Writing in 1922, an HRM scholar noted that “[w]e are confronted with the fact that the Civil Service does not offer a promising career to able men and women” (Gaus, 1922: 768). With the exception of the period of the Great Depression, through the 1950s government salaries remained uncompetitive. As a direct result of the continuing problem of low pay, governments found it vital to offer public employees benefits that the private sector typically did not offer their employees. Equally important, governments looked for new benefits that would help to persuade public employees to stay with their public employers for an extended period of time.

During the first half of the twentieth century, many governments came to regard the public employee pension as vital to the recruitment and retention of public employees (Clark, Wilson, & Craig, 2003: 167-217). Between 1900 and 1920, some large cities began to offer their employees pensions. A number of states set up pension plans for public school teachers (Rietz, 1918). Governments saw pensions as a way to offer their employees something typically not provided by private employers. Governments also saw pension plans as a way to make it attractive for some elderly employees who had become less efficient to voluntarily retire. In 1920, Congress established a defined benefit retirement program for civilian federal employees (2000 claims filed for U.S. annuities, 1920). Under the plan, if civil service employees worked a minimum number of years, they would receive a fixed annuity for the remainder of their life based on a percentage of their final salary.

By the early 1920s, governments had refined their approach for recruiting and retaining employees. The formula included protecting public employees from political retaliation, mandating general, open, competitive, and practical examinations, removing employees only “for just cause,” and providing guaranteed retirement annuities. All of these reforms sought to protect the job security of employees and reward loyalty and long-term service. Frederick Taylor, the father of scientific management, argued that “first-class” workers had nothing to gain and everything to lose from a seniority system. According to Taylor, no relationship existed between a “first-class” worker and seniority. If a newly hired employee had the appropriate training and skills, nothing prevented that newly hired worker from being a “first-class” worker (Nigro, 1986). Governments ignored this fundamental principle of scientific management when they made so-called step increases part of their compensation plans (United States Office of Personnel Management, 2013). Step increases permitted employees to qualify for pay increases even if they stayed within a pay grade for an extended period of time. To qualify for these pay increases, public sector play plans required employees to demonstrate satisfactory performance “and a minimum period of time in each step” before they could move from one step to the next (Lee, 1993: 80).
In the aftermath of the Second World War, American business and industry renewed their attacks on unions and civil service systems. The assault on private sector unions coincided with increased criticism of public sector HRM policies and practices. In 1947, for example, Congress, at that time under Republican control, established the Commission on the Organization of the Executive Branch (the Hoover Commission). Republicans in Congress saw the Commission as a way to build support for dismantling much of the New Deal and gaining greater political control over the federal bureaucracy (Pemberton, 1986). Strongly reflecting a bias toward private sector HRM practices, the report argued that federal agencies should have much greater control over the hiring and firing of their employees (Leich, 1953). This included permitting federal agencies to largely ignore seniority when deciding which employees to lay off (Leich, 1953). Writing in 1952, Bernard Gladieux, of the Ford Foundation, sharply criticized federal civil service reduction-in-force regulations for basing the order of layoffs almost exclusively on “status and tenure” (Gladieux, 1952: 176). As part of a study of how to reform the federal civil service system, Gladieux (1952: 176) wrote: “I know of no other practice so disruptive to good administration as the requirement for lay-offs [to] be effected almost entirely on the basis of status and tenure.” “Frequently this practice has had the effect of forcing out a competent employee and replacing him with an incompetent or unqualified person,” argued Gladieux (1952: 176).

Despite the growing private sector criticism of public sector HRM policies and practices, through the 1960s the attacks had little impact. The American economy boomed. The country reached full employment. Large increases in tax revenue enabled governments to significantly increase the compensation of public employees. Through the 1960s, many college-educated men and women entered government service with the goal of changing American society. During the 1970s, however, pessimism and despair over difficult economic conditions provided the impetus for a new wave of bureaucrat bashing. Even some arguably pro public employee Democrats raised questions about the work ethic of public employees.

Elected to the presidency in 1976, Democrat Jimmy Carter embraced the existence of a civil service crisis. The Carter White House threw its full support behind civil service reform, based on the hypothesis that the existing federal civil service system provided “few incentives for managers to manage or employees to perform” (Campbell, 1978: 101). Many supporters of an overhaul of federal HRM policies and practices embraced the performance paradigm that shaped private sector market-based HRM policies and practices (Thompson, 2006). “Though it should be a prime motivational tool,” argued Civil Service Commission Chairperson Alan K. Campbell, “the performance appraisal is not now the basis for developing, rewarding, reassigning, demoting, promoting, retaining, or separating...
employees” (Campbell, 1978: 101). In the end, the Civil Service Reform Act of 1978 did not radically restructure the federal civil service, but its passage reinforced the public perception of a public service in crisis.

With the United States economy in shambles, the late 1970s and early 1980s saw state and local governments facing the problem of managing large budget shortfalls. Historically, governments relied upon short-term fixes such as sharp cuts in hiring and travel budgets to get them through tough budget periods (Stanley, 1977). Governments generally viewed layoffs as a last resort (Caubler, 1982; Rich, 1983). And if layoffs became absolutely necessary, state law and civil service rules typically required agencies to lay off the employees with the least amount of seniority first. The “last hired, first fired” layoff policy helped governments to retain experienced employees and demonstrated loyalty to long-term employees. By the end of the 1970s, this approach to cutback management sharply contrasted with that of the private sector, in which performance-based layoffs became the rule rather than the exception.

Not surprisingly, the late 1970s saw a new generation of market-driven public management scholars challenge the way in which governments typically managed cutbacks. Levine (1978), for example, argued that governments should make use of efficiency-based cutback management policies instead of their traditional use of equity-based policies. Equity-based cutback management plans distributed cuts equally across an entire organization. Everyone in an organization, for instance, had their pay frozen or cut (Levine 1978). Organizations that made use of efficiency-based cutback management targeted the least productive or least necessary parts of an organization for major cutbacks. This approach helped to protect the most productive employees and most productive parts of the organization (Levine, 1978).

Shortly after winning a landslide victory against President Jimmy Carter, President Ronald Reagan made clear he had little respect for federal bureaucrats and the way they spent federal dollars. In an effort to find ways to streamline federal operations and to force the federal government to make use of market-based management tools, Reagan established the President’s Private Sector Survey on Cost Control (PPSSCC), popularly known as the Grace Commission. Staffed primarily with private sector management executives and experts from American corporations, the Grace Commission produced 47 task force reports that focused heavily on “turning over to the private sector” many functions traditionally performed by federal employees (Goodsell, 1984: 200). Of particular significance, the Grace Commission rejected the finding of the Advisory Committee on Federal Pay that federal employees needed a 21.5% catch-up raise largely due to the high levels of inflation during the 1970s and early 1980s. Instead, the Grace Commission found that federal fringe benefits far exceeded the benefits received by private sector employees and should be cut, and that the minimum federal employee retirement age should be raised from 55 to 62 (Goodsell, 1984).
During the 1990s, public opinion polls revealed that the majority of Americans viewed government as “ineffectual and corrupt and its employees [as] incompetent and corrupt” (Frederickson & Frederickson, 1995: 165). Yet, these findings did not accurately reflect how Americans viewed the effectiveness of their state and local governments. In October 1997, 68% of Americans had a very favorable or mostly favorable view of their local governments (Pew Research Center, 2012). The same survey found that 66% of Americans had a very favorable or mostly favorable view of their state governments (Pew Research Center, 2012). In contrast, only 38% of Americans had a favorable view of the federal government (Pew Research Center, 2012).

In 1993, the National Commission on the State and Local Public Service (Winter Commission) issued its report, entitled *Hard truths/tough choices: An agenda for state and local government reform* (National Commission on the State and Local Public Service, 1993). The report sharply criticized rigid and rule-bound public sector HRM policies and practices. The report argued that in order to end so-called “civil service paralysis,” public employees and management needed to enter into a new partnership. On their part, public employees must give up a certain amount of job security in return for the potential of higher pay for improved performance and productivity. “How can merit be served when pay is determined mainly on the basis of time on the job? How is merit served when top performers can be ‘bumped’ from their jobs by poor performers during downsizing?” stressed the Commission (National Commission on the State and Local Public Service, 1993: 25).

The Winter Commission embraced the conventional wisdom that the private sector did a much better job of motivating its employees than the public sector did. It largely rejected the idea that public service motivation played an important role in maintaining the productivity of public employees. However, much like the earlier Grace Commission, the Winter Commission failed to provide any objective evidence that market-based HRM policies and practices increased employee productivity in the private or public sectors.

During the 1990s and the first decade of the 21st century, support for market-based public sector HRM policies and practices increased enormously. The market-based Reinventing Government (RIGO) and New Public Management (NPM) movements caught the imagination of public management experts, politicians, and the media (Park & Joaquin, 2012). The movements celebrated decentralization, debureaucratization, downsizing, managerialism, privatization, and outsourcing (Hays, 1996). Both movements raised serious questions about the need for strict tenure protections for public employees (Thompson, 2006).

The so-called “radical civil service reform” movement led to the most aggressive approach to leveling the playing field between public and private sector employees (Condrey & Battaglio, 2007; Nigro & Kellough, 2008). In 1996, Georgia abolished its civil service system and replaced it with a market-based HRM system. Specifically, Georgia “completely decentralized and deregulated
the state civil service by shifting employees from merit protection to unclassified status” (McGrath, 2013: 639). Advocates of radical civil service reform lobbied for the elimination of job security in favor of at-will employment, the erosion of merit protections, the linking of pay with performance, and other reforms directed at giving public sector line managers the same authority over their employees as that exercised by private sector managers (Condrey & Battaglio, 2007; Williams & Bowman, 2007).

Hays and Sowa (2007) measured how many states adopted significant market-based HRM reforms including (1) increasing the number of at-will employees; (2) decentralizing HR functions such as hiring; (3) restricting grievable issues by employees; and (4) reducing job security. The list of states that made major market-based reforms in their HRM policies and practices included Arizona, Colorado, Florida, Georgia, Iowa, Kansas, Missouri, North Carolina, North Dakota, Oklahoma, Pennsylvania, South Carolina, Vermont, Virginia, and Washington. Yet, the majority of states did not make fundamental changes to their civil service or merit systems. The degree of partisan political control turned out to be the best predictor of the success of radical civil service reform. States with strong conservative partisan majorities in both chambers of the state legislature and with a governor of the same persuasion proved much more willing than other states to embrace the radical civil service reform agenda (McGrath, 2013). The objective of greater political control over the bureaucracy rather than increased bureaucratic efficiency clearly shaped the agenda of the radical civil service reform movement.

THE GROWING BENEFIT GAP AND THE PRIVATE WORKFORCE

During the 1970s, widespread acceptance of a new version of the late-19th-century Horatio Alger myth helped to head off revolts by displaced workers and the revitalization of private sector unions. During the late 19th century, Horatio Alger penned over 100 stories of impoverished young men pulling themselves up by their bootstraps and going from poverty to riches. Since the 1970s, displaced workers have faced criticism for not pulling themselves up by their bootstraps. Some commentators have even argued that if society attached a greater social stigma to unemployment, it might encourage the unemployed “to re-enter the workforce even if it [did] not significantly raise their incomes relative to collecting [unemployment insurance]—leading to greater overall economic output and, in the long term, improving the well-being of the unemployed” (Barro, 2012). Numerous articles have appeared in the popular press maintaining that employees have the ability to make themselves layoff proof by making themselves indispensable to their organizations (Washuk, 2009).

Making the situation even more difficult for private sector workers, the 1970s saw a sharp drop in private sector union membership as the country shed industrial jobs and unions failed to organize white collar workers. The decline in private sector union membership accelerated between 1980 and 2010. By 2012, private
sector union membership stood at 6.6%, while public sector union membership stood at 35.9%. The total number of private sector union members had fallen to 7.0 million, while 7.3 million employees in the public sector belonged to unions (United States Department of Labor, 2013a). Without doubt, the declining percentage of private sector employees covered by union contracts has contributed to the gap between private and public sector benefits. Ninety-one percent of union members (public and private) have access to health insurance and retirement plans provided by their employers, while only 55% of nonunion employees have access to both retirement plans and health insurance (Kimbro & Mayfield, 2013). The deunionization of the private sector and the continued unionization of the public sector has had a profound impact on the compensation and benefits of private and public sector employees.

In 2013, 89% of state and local government employees (full and part time) had access to retirement benefits. Eighty-five percent of these employees participated in a retirement program (United States Department of Labor, 2013b). In contrast, only 64% of full and part-time private sector employees had access to retirement benefits, and of these only 49% participated in their employer’s retirement program (United States Department of Labor, 2013b). Ninety-nine percent of full-time state and local government employees had access to an employer-sponsored retirement program and of these 94% participated. Again, in contrast, 74% of full-time private sector employees had access to employer-sponsored retirement plans and 59% of these employees opted to participate. Interestingly, 94% of private sector union members had access to employer-sponsored retirement plans and 86% of these employees participated in the plans (United States Department of Labor, 2013a). With respect to all employees (public and private), only 38% of employees falling within the lowest 25th percentile of wage earners had access to retirement plans, while 85% of employees falling within the highest 25th percentile of wage earners had access to employer-sponsored retirement plans (Kimbro & Mayfield, 2013).

The access of private sector and state and local government employees to health insurance plans and participation in them followed the pattern for retirement plans. Eighty-seven percent of all state and local government employees had access to employer health insurance plans and 73% opted to participate in them. In contrast, only 70% of all private sector employees had access to an employer-sponsored health insurance plan and 50% of these employees opted to participate (United States Department of Labor, 2013c). Of full-time state and local government employees, 99% had access to an employer-sponsored health insurance plan and 84% chose to participate. In contrast, 85% of full-time private sector employees had access to a health insurance plan operated by their employers and 64% chose to participate (United States Department of Labor, 2013b). With respect to unionized private sector employees, 95% had access to an employer-sponsored health insurance plan. Seventy-nine percent of these employees participated in the plan. Sixty-seven percent of nonunion private sector employees had access to an
employer-sponsored health insurance plan, and 48% of these employees participated in the plan (United States Department of Labor, 2013c).

THE GREAT RECESSION AND THE PUBLIC PENSION REFORM CRUSADE

By the early 1960s, good retirement benefits had become a fixture of public sector compensation packages. Good retirement benefits had also become a fixture in private sector collective bargaining agreements. After the passage of the National Labor Relations Act of 1935, private sector union members increased through the 1950s. Organized labor placed “pensions and welfare benefits at the center of their bargaining drives” (Zurlo, 2012: 51). By 1960, retirement plans covered 33% of private sector employees and almost all unionized industrial workers (Zurlo, 2012). Both private and public employers regarded defined benefit retirement plans as good investments.

Under a defined benefit plan, the employer promises to pay the retiree a specific amount. These plans typically make use of a formula to determine a retiree’s annual retirement annuity. The factors considered in determining the retirement payout have typically included the employee’s length of service, a benefit multiplier, and the employee’s final average salary (Johnson, 2013). Defined benefit plans also typically provide retirees with annual cost of living adjustments. Defined benefit plans place the entire risk on the employer, who manages the fund on behalf of the employees. Historically, employees and employers contribute a fixed amount to a fund set aside to provide lifetime annuities to retirees covered by defined benefit plans. To reduce the amount of funds necessary to provide retiree benefits, pension fund managers invest the assets of the funds in bonds, stock, and real estate in order to generate additional revenue. In theory, keeping these funds actuarially sound requires periodic adjustments of the contribution rates due largely to fluctuations in the return on the investment of pension fund assets (Johnson, 2013).

During the 1950s and 1960s, a number of private pension fund scandals led to pressure on Congress to regulate private pension plans (Zurlo, 2012). Out of all of the underfunded private pension scandals, the bankruptcy of the Studebaker-Packard Corporation sent shockwaves through Congress. Studebaker had failed to adequately fund its retirement plan, which left thousands of employees without any retirement benefits (Zurlo, 2012). In 1974, Congress passed the Employee Retirement Income Security Act (ERISA) to assure the long-term solvency of private sector defined benefit retirement plans and if necessary pay retirement benefits to retirees of bankrupt corporations (Pension Benefit Guaranty Corporation, n.d.).

The passage of ERISA did not end the pressure on defined benefit retirement plans. The 1970s saw the situation for public and private defined pension plans grow significantly worse. Through most of the 1970s, the stock market remained
in the doldrums. This meant that the investments of retirement funds fell far short of projections. Due largely to strong opposition to tax increases, many state and local governments failed to increase contributions to retirement funds to protect their long-term viability. Due to the strict rules established by ERISA, private corporations had no choice but to increase contributions or close their defined benefit plans. The late 1970s and 1980s saw many large corporations terminate their defined benefit plans and replace them with defined contribution plans. Under defined contribution plans, “the employer contributes a predefined amount or percentage of the employee’s wages . . . into a retirement fund” (Johnson, 2013: 421). Instead of the contributions going into a collective account, the contributions go into each employee’s individual account. The employee has broad discretion with regard to how to invest his or her fund contributions. But along with being given this broad discretion, the employee loses the certainty of a fixed retirement benefit (Johnson, 2013). Recognizing the importance of defined benefit plans to public employees, governments kept their defined benefit plans in place (Olleman & Boivie, 2011). In 1990, 35% of private industry employees participated in defined benefit retirement plans. By 2011, defined benefit plans covered only 18% of private industry employees (United States Department of Labor, 2013d). In contrast, in 2008, 84% of state and local government employees had defined benefit plans available to them (Wiatrowski, 2009).

Besides creating a situation in which public employees had much more secure retirement plans than the vast majority of private sector employees, the conversion of private sector retirement plans from defined benefit to defined contribution plans also led to a major divergence in retirement patterns between public and private sector employees. Traditional public sector defined benefit plans typically permitted police officers, teachers, and firefighters to retire with 30 years of service regardless of their age. For instance, police and firefighters’ defined benefit plans typically permitted them to retire after 25 or 30 years of service. As a result, many firefighters and police officers retired shortly after they reached the age of 50 with full health insurance coverage in addition to their lifetime retirement annuity (Johnson, 2013). Many school districts permitted teachers to retire at age 55 if they had taught for at least 30 years. In contrast, the ability of a participant in a defined contribution plan to retire depends on the value of the participant’s individual retirement account when they decided to retire. Defined contribution retirement plans leave it entirely up to the participant to set their own retirement age.

A 2010 Pew Center for the States report found that “the combined state shortfall for public pensions plans operated by governments could be as high as $1.8 trillion if based on investment rate assumptions similar to corporate plans, or $2.4 trillion using a discount rate based on a 30-year Treasury bond” (Fehr, 2011). Yet, the overall bleak picture did not provide a full picture of the public pension crisis. In 2009, on average, states funded their pensions at a rate of 78% of the funds necessary to meet future obligations. Thirty one states fell below the 80% well-funded threshold for a well-funded pension system (Pew Center on the States, 2011).
While New York funded its pensions at a 101% rate, Illinois funded its pensions at a 51% rate. The 2009 data indicated that the majority of the states did not have a severe pension funding problem but simply needed to make moderate increases in payments to their plans to assure their long-term health. On the other hand, a number of states and local governments had badly mismanaged their pension plans.

The Great Recession (2007–2009) made the situation much worse for governments with badly underfunded pension plans. Not surprisingly, critics of public sector HRM policies and practices took advantage of the situation to start a panic over the condition of public pension plans. Instead of blaming state and local governments for not adequately funding their defined benefit retirement plans, they blamed public employees and public employee unions for defending defined benefit plans (Easterday & Eaton, 2010; Hess & Squire, 2010). Between 2009 and 2012, 44 states revised their state retirement plans covering state and some local government employees (Snell, 2012). The reforms included increases in employee contributions, higher age and service requirements for normal retirement, a reduction in postretirement benefit increases, the prohibition of future cost-of-living increases, and the replacement of defined benefit plans with defined contribution plans, thus lowering benefits (Snell, 2012).

Of the reforms adopted by state legislatures, the action of the Rhode Island legislature proved the most controversial. Despite being a heavily union state, in 2011, Rhode Island passed the Rhode Island Retirement Security Act (RIRSA). The Act cut benefits for both present and future state employees by replacing the state’s defined benefit retirement plan with a hybrid system comprising “a smaller DB pension and a new defined contribution (DC) plan” (Hiltonsmith, 2013: 2). At least one study of RIRSA argued that the new plan would save Rhode Island little in the long run and lead to a major reduction in the benefits received by retired public employees in Rhode Island (Hiltonsmith, 2013).

An objective review of the overall soundness of public sector defined benefit plans supports the argument that the anger over the perceived preferential treatment of public employees had more to do with the principle of public pension reform than with the need to deal with the underfunding issue. Given the choice of reducing the benefits of public employees or finding new revenue to fix underfunded defined benefit plans, many state legislatures took the easy way out.

PUBLIC SERVICE MOTIVATION AND THE FUTURE OF PUBLIC SERVICE

During the 20th century and into the 21st century, various management reform movements have sought to impose “business-like values and market style reform” on the public sector, with the stated goal of improving the efficiency and effectiveness of government programs (Bowman, 2012: 51). With the help of the media, advocates of market-based management models largely succeeded in selling a myth of civil service failure and the irrelevance of public service motivation to
governmental efficiency and effectiveness (Moynihan, 2010). Much as in the 19th-century patronage period, many advocates of market-based public sector HRM reforms view them as vital to gaining political control over government bureaucrats. However, McGrath (2013: 647) concludes that rather than viewing the radical civil service reform movement as a successful national effort to weaken the civil service system, it should simply be seen as reflecting “an institutionally determined consequence of political actors behaving in political ways.”

More than any single factor, the ability of large private sector employers to hold the line on wages and benefits led to a major reversal of the fortunes of private sector workers. This led directly to a major increase in income inequality in the United States. “The income received by the top one percent in the United States is at its highest level since the 1920s, and the share going to the top 0.1 percent is at a historic high” (Scott & Pressman, 2013: 324-325). With the help of public employee unions, public employees generally escaped the fate of large numbers of private sector workers. Misguided management reform advocates have successfully made public employees and public employee unions the scapegoats for the serious problems facing private sector workers.

The fact that governments generally treated their employees fairly and that many public employees had the benefit of union representation created a problem for private sector organizations that made use of market-based HRM policies and practices. Private sector employees might begin to demand the same treatment as public sector workers. As a result, it became necessary to discredit and demonize public sector HRM policies and practices. The battle over public sector HRM policies and practices has nothing to do with efficiency and everything to do with ideological divisions over the rights and dignity of workers.

REFERENCES


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