



**TOWARD A
21ST CENTURY
CITY FOR ALL**

**PROGRESSIVE POLICIES FOR
NEW YORK CITY IN 2013
AND BEYOND**

Elements of a Labor Policy for the Next Mayor of New York

Thomas A. Kochan

Sloan School, MIT

In recent years, governors and mayors across the country have sought to cope with the fiscal crises brought on by the budgetary impacts of the Great Recession in two different ways. One approach, which we might call the “Wisconsin model,” is to attack public service workers and their unions, making them the scapegoats for all budgetary problems regardless of the facts, and using the 2010 shifts in political power at the statehouse level to denigrate teachers, government workers, and public sector unions. These attacks have weakened unions and worker rights, and caused both management and labor to divert precious financial and human resources into political battles rather than a search for collaborative solutions. The second response, less visible and still developing, has been for city and state administrations to work collaboratively with their workers and unions to address problems together in new ways.

What is noteworthy, however, is that nowhere has “business as usual” remained the norm in public sector labor-management relations. No elected official, no matter how much he or she supports the principles of worker rights and collective bargaining, can maintain the status quo or rely on traditional approaches. The public is demanding faster, more responsive, and more equitable processes and short- and long-run solutions, and elected officials have responded accordingly.

The next few years will be a contest between these two alternatives. One or the other will shape the future of public sector labor management relations, the economic conditions of public service work, and the efficiency and quality of public services. Therefore, those who value public sector unions and collective bargaining need to demonstrate they can make the second option work better than the first. Below are some ideas that can help us do so.

1. Elements of a Progressive Labor Management Relations Policy/Strategy

The next mayor of New York should build on what we have learned and are learning about how to bring about successful and sustained innovations in private and public sector labor management relations.

Focus on the real problems, state them clearly, and be transparent

The first step is to undertake an honest, direct, and transparent conversation about the financial problems facing the city. This starts by not scapegoating public sector workers and unions, or arguing they are overpaid relative to their private sector counterparts. The evidence indicates that public sector workers nationwide earn 11.5 percent less on average than their private sector counterparts in wages and salaries. (Taking fringe benefits into account shrinks the difference to 3.7 percent.) Studies employing the same methodology show that wages for local and state government workers in New York State are about 5 percent below comparably educated private sector workers; however, when fringe benefits are included the compensation differences disappear (Lewin 2012). Thus, public sector workers in New York State or nationwide are not overpaid relative to comparably educated workers in the private sector.

What about benefits? As the numbers above show, the problem is not the overall level of benefits. But many public sector benefit plans have serious problems that stem from inconsistent and improper funding of benefits, losses in pension investments during the Great Recession, and benefit formulas that base retirement incomes on the last few years of service and incentivize excessive overtime and other abuses. These factors cut across states with and without public sector collective bargaining and across union and nonunionized employees within states. Public employees also, on average, pay a smaller percentage of their health care premiums than most private sector employees. All these issues need attention regardless of union or nonunion status. In New York, as in most states, the state sets the basic parameters of pensions and therefore that is where adjustments are now being negotiated. However, administration of the plans lies at the local level and to the extent there have been abuses or gaming at this level the mayor and local unions both have an interest in addressing them in order to maintain public support for these plans (in an era where many private sector employees have seen their pension plans replaced by 401k plans). One option is to promote transparency and good management by creating a joint multi-stakeholder group of city officials, union officials, and private sector pension experts to review the administration of the city's pension plans and if warranted, recommend administrative changes that may be needed.

Take a broad-based coalition approach applying common principles to all bargaining units

Many cities and unions have been successful in solving common problems or addressing fiscal crises by engaging in broad-based coalition bargaining rather than the standard unit by unit negotiations. Boston and San Francisco have done this on health care and pension policy respectively. Massachusetts integrated its multiple transportation agencies and negotiated a common labor agreement with multiple unions as part of the merger. Connecticut took a similar approach, but had to overcome difficulties in getting all its employee unions and associations to accept the statewide changes in return for a no-layoff commitment. New York City unions have a history of working together in times of crisis that dates back to the financial crises of the 1970s and have a readymade institution to support this process – the Municipal Labor Committee. The next mayor should draw on this group more often and more completely than in the past to develop a citywide set of principles for guiding wage policies and adjustments and to address common benefit issues.

Health care is one area where municipal unions could work together and, by pooling resources, save considerable money for the city and the workforce. Across the country, health care systems are shifting from fee-for-service to total health – preventive, integrated insurance and delivery models, and information technology evidence-based care management systems. The Municipal Labor Committee might explore creating a single model total health system covering all city employees. Using its bargaining leverage, it could contract with a single insurer and provider paid on a capitation fee per month rather than on a fee-for-service basis. Systems that take this approach, such as the plan run by the New York Hotel Workers Union or Kaiser Permanente have demonstrated the value of models that emphasize healthy life styles, preventive care, and integrated insurance and care delivery systems. As a first step, the total costs of the city's health insurance program might be benchmarks against competitive proposals for an alternative system run in a coordinated fashion by the Municipal Labor Committee or a joint union-management body. The Health Insurance Plan of New York is a step in this direction; however, several more fully integrated systems are in place in other parts of the country. A benchmarking process would provide the data needed to make an informed comparison.

Use modern tools of negotiations, problem solving, and engagement

Three decades of experience in private sector (and some more limited public sector) settings has demonstrated that the most innovative and successful and innovations are achieved by 1) engaging front line employees in problem solving and continuous improvement activities, 2) using “interest based” negotiations and problem solving tools and techniques in collective bargaining negotiations, and 3) having broad-ranging information sharing and consultation among high level executives and labor representatives. This requires considerable management and union leadership and capacity building. A number of school districts are now following this approach and indeed a national group that includes the American Federation of Teachers recently signed a statement of principles endorsing this type of collaborative approach to improving student achievement. A statewide collaborative approach modeled on these three principles has been launched to support education innovation in Massachusetts. A similar approach could be adapted and fitted to New York City and its different departments, occupations, and unions.

Put gainsharing concepts to work

Regardless of who is mayor, dollars for across-the-board wage improvements will be exceedingly scarce in the years ahead. Yet wages should not be allowed to decline, both for equity reasons and to avoid losing or being unable to compete for talented employees. The solution to this dilemma will need to include some form of sharing productivity gains and other cost savings that are generated by working together to deliver more efficient and high quality public services. This can be done in a variety of ways.

Typically the first thought about pay-for performance plans is to implement individual merit pay. This, however, is the least desirable and most difficult option. It divides the workforce, it requires enormous managerial capacity to administer a merit pay plan effectively, and is strongly opposed by most unions. There are some exceptions to this. The U.S. Postal Service has an elaborate and accepted performance pay system in place for its supervisors and managers. It is a model worth exploring for New York City supervisors and managers; however, it would take years to put such a system in place and would only

work if there is sufficient participation of supervisor and management employee groups or organizations in its design and administration and a high level of trust in the program's integrity. The next mayor may want to begin exploring this option for this level of employees; however, a different and quicker approach will be needed for bargaining unit personnel.

That different approach is likely to be some form of group or organizational level productivity-operational savings gain sharing program. Experience from private sector programs indicates the successful gainsharing programs:

- Provide for independent employee voice and participation in a) the decision to initiate a new plan, b) its design, c) the generation of suggestions for continuous improvement and savings, and d) the plan's administration and adjustment;
- Cover all employees in the new organization so as to encourage cross-occupational and cross-level cooperation, not competition;
- Build on, and not substitute for, fair base wages and benefits; and
- Recognize that the Achilles' heel of any performance sharing formula lies in the challenges posed to it by changes in technology, market conditions, product/service mix, or organizational strategies and leadership. These issues can best be managed by ensuring that the baseline budget numbers and formulas for calculating savings are technically sound, transparent and trusted by all parties (employees, union leaders, managers, and overseers – in this case the public, the mayor and finance and administration officials), and that changes in the formulas and other numbers used as the basis for calculating savings are equally technically sound and trusted.

These principles were used to design and implement a new operational savings and gainsharing program in the Massachusetts Department of Transportation. They could be adapted and applied as guiding principles for pay policies in New York City.

There is no shortage of one-off examples of New York City unions identifying cost savings either via in-sourcing work previously outsourced to private contractors or recovering funds through more thorough audits of private contractor services, or improving the collection of fees previously overlooked ("Cost-saving and revenue-generating proposals developed by District Council 37 and Implemented by the City of New York" 2012). These examples should be codified, reviewed systematically for accuracy, and assembled into a pool of funds that are shared on some negotiated formulaic basis with city employees.

Capital projects, budget savings, and economic development

New York City will be helping to fund, manage, and coordinate a large number of capital projects as it rebuilds and modernizes the city's infrastructure, especially now in the wake of Hurricane Sandy's devastation. At the same time, unemployment among city residents remains high and has yet to recover from the Great Recession. This is an opportunity to use vehicles like Project Labor Agreements negotiated by city officials that ensure state-of-the-art practices are used to provide job training and placement for community residents and state-of-the-art labor relations and workplace practices to complete projects on time, safely, and on budget. The companion essays by Laura Wolf-Powers and Cecilia Estolano both make useful suggestions in this regard. Model agreements such as the ones negotiated by the mayor of Boston, the Boston Housing Authority, and the Boston Building and

Construction Trades Council illustrate how to negotiate the terms and manage large scale infrastructure projects to ensure they provide good jobs, save money, and promote community development (“Two Municipalities Leverage Project Labor Agreements as a tool to Enforce Section 3” 2011, 243-47). The point of this example is to suggest that the next mayor’s labor policies should look for savings, innovative approaches, and economic development opportunities both as the employer of the city workforce and in managing public resources involving private sector businesses, community groups, and labor unions.

2. Moving Forward

Labor management relations will be one of the biggest challenges facing the next mayor. Taking a status-quo, bargaining-as-usual approach will not be a viable option. The public is demanding significant improvements in public services – in schools, protective services, and the full range of municipal operations – and the budget pressures will not support significant across the board wage and/or benefit increases. Yet public employees and unions should not be treated as scapegoats or as the source of the problem. Instead, the policy elements outlined here can make New York’s employees and their unions significant parts of the solutions to these challenges.

Funder Acknowledgments

We are deeply grateful for financial support from the Brooklyn Community Foundation, the Charles S. Revson Foundation, the J. M. Kaplan Fund, the New York Foundation, the Open Society Foundations, the Robert Sterling Clark Foundation, and the Scherman Foundation. The opinions expressed in this work are solely those of the authors and do not represent those of the funders, The Graduate Center, or the City University of New York.

References

- “Cost-saving and revenue-generating proposals developed by District Council 37 and Implemented by the City of New York,” October 24, 2012.
- Lewin, David, Jeffrey H. Keefe, and Thomas A. Kochan. “The New Great Debate about Unionism and Collective Bargaining in the U.S. State and Local Governments,” *ILR Review*, vol. 65, no.4, October, 2012, 749-778.
- “Two Municipalities Leverage Project Labor Agreements as a tool to Enforce Section 3,” *Housing Law Bulletin*, vol. 41, October 2011, 243-47.