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## **Free Buffalo Forms Committee to Review Amherst Budget**

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### **Initial Property Tax Cut of 16 Percent is Proposed**

**By James Ostrowski**

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Free Buffalo, the Erie County chapter of Free New York, Inc., supports a bottom-up, bottom-heavy political structure with the primary unit of governance being local, organic communities such as cities, towns and villages. We are opposed to top-down, top-heavy approaches including forced regionalization.

We favor municipal governments not because they are sacrosanct or without defects. In fact, they share some of the same defects as all governments. They are bureaucratic and coercive and vulnerable to special interest manipulation and exploitation. Yet, they also have certain virtues that other levels of government lack.

- They are the closest to the people, physically and psychologically.
- Individual votes, voices and activism count more at the local level.
- Voters may exercise more caution in municipal elections because the results of those elections more directly impact on their daily lives.

- The Buffalo area has been the victim of numerous policy blunders made in Albany and Washington by bureaucrats and politicians who don't live here and need not personally endure the effects of their mistakes. In contrast, local officials are at least subject to living with the consequences of their own policy decisions.
- The organic nature of local communities—where people are bound together by social, cultural and economic bonds--tends to militate against the special interest greed calculus that dominates politics at the state and federal levels. That is, many voters in state and federal elections vote for the candidate who will snatch the most money out of the pockets of strangers and insert it into their own purses and wallets. On the local level, that sort of naked greed is tempered by the knowledge that those whose pockets are picked may be your neighbors, friends, or relatives.
- Local governments tend to provide tangible benefits and necessary services to residents, albeit with bureaucratic inefficiency and excessive cost.
- Some local “taxes” could better be termed “user fees” as they are imposed for services highly valued by those who pay for them.
- Local governance allows for experiment at relatively low cost. Policy errors are more limited in scope than mistakes made at the county, state and federal levels.

Perhaps the greatest virtue of local government, however, is its *escapability*. If you are unhappy with your local government, you can *vote with your feet* and cast the deciding vote for an entirely new government merely by moving a few miles!

For all these reasons, Free Buffalo will look first to the federal, state and county levels of government for spending reductions before seeking to micromanage local municipalities. Our scarce resources are better spent monitoring larger governments that spend enormous sums of money and are, for all practical purposes, beyond the reach of individual citizens.

This is not to say that municipal governments are off limits. When they pay themselves more than the taxpayers earn; when they violate the essential principle of equal protection of the laws by doling out corporate welfare; or when they are guilty of profligate waste or rank corruption, Free Buffalo will work hard to expose those practices.

In the case of the Amherst Town budget, our main concern is not one specifically directed at Amherst, but rather at a disturbing trend of government generally in Western New York: excessive public sector compensation compared to the private sector.

In our report on the [Erie County budget](#), we discussed this issue in great detail:

One of the painful truths that needs to be stated is that public employees in this area make too much money and receive too many benefits compared

with private sector workers. This is not a personal criticism of those workers nor is it a personal evaluation of their performance. Rather, it is merely a statement of the current economic reality in Western New York. *Excessive government payrolls are killing our economy.* We can't afford them anymore.

Unless this truth is understood, accepted *and acted upon*, we will have no hope whatsoever of ending our 45-year slide<sup>1</sup> toward economic and cultural oblivion.

### **A Tale of Two Cities**

The plight of wage-earners in Western New York is a tale of two cities. If you work in the public sector or are a member of a private sector union, you probably earn a decent wage. If you do not, except for a relatively small number of high-income workers in larger corporations, you are most likely struggling around the fringes of economic survival. Yet, private sector workers pay for, directly or indirectly, the higher wages of their public sector brethren. This unsustainable wage disparity is a major cause of Buffalo's economic decline. It is also a rank injustice for which there is no economic justification. It is an injustice that threatens to separate workers into two classes fighting one another when we should all be united in our efforts to revive Greater Buffalo's depressed economy.

### **Guiding Principles**

There should be a correlation, albeit difficult to define, between public and private sector wages. Public sector wages should rise only when private sector wages, the ultimate source for the payment of public sector salaries, have risen. *If this principle was adopted, the political activism of public sector workers would tend to shift from efforts to increase their own wages and benefits, to efforts to strengthen the overall economy.* This would truly be a revolutionary development if the legal mechanisms to enforce it could be formulated and enforced.

Public sector wages should in some sense be commensurate with private sector wages given *all* the relative benefits, risks, costs involved. All things being equal, wages and benefits in the public sector should be *less* than those in the private sector. The reason for this is the vast difference in job security between the two sectors. Experience shows that public employees are far more secure in their employment than those in the private sector. As a general rule, private sector workers can be fired at

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<sup>1</sup> In *Political Class Dismissed*, (Cazenovia Books, 2004), I argued that the decline in Buffalo's economy began around 1960 (pp. 48-53).

will and face the continual uncertainties of the marketplace. They may be fired or laid off any time due to circumstances beyond their control.

The extreme bitterness that characterizes Greater Buffalo politics—our version of the politics of personal destruction—may be traceable to the fact that the various operatives for the various political machines realize that if they lose an election, they face the unpleasant prospect of trying to match their inflated compensation in the shrinking private sector. If they have to destroy a political opponent by “opposition research” or leave threatening notes on cars to avoid that grim prospect, so be it. If they need to spread false and malicious rumors, well, “politics ain’t beanbag.”

### **The Numbers**

According to the Bureau of Labor Statistics (BLS),<sup>2</sup> average hourly *earnings* in the private sector in Buffalo—Niagara Falls in the most current survey—July 2004—were \$17.73. The figure for state and local government workers was \$24.03. There is no figure for *benefits* localized to this area, however, in the Northeast, benefits were 29.6 percent of total *compensation*. That figure, applied to our area, yields average benefits of \$7.45 and a total hourly private sector compensation figure of \$25.18.

Nationally, benefits for state and local government employees were 31.7 percent of compensation. Applied to this area, that would yield benefits of \$11.13 and total compensation of \$35.16. Thus, private sector compensation is only 71.6 percent of public sector compensation. A pay cut of about 28 percent for government workers would equalize compensation between the two sectors of the economy.<sup>3</sup>

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<sup>2</sup> Buffalo-Niagara Falls, NY, National Compensation Survey, July 2004 (March 2005, Bulletin 3125-46.

<sup>3</sup> The Citizen’s Budget Commission found that local government workers in New York State were paid 25 percent more than the national average.

**Figure No. 1**

**Public-Private Sector Compensation Gap  
Buffalo-Niagara (all figures hourly)**

	<i>Private Sector</i>	<i>Public Sector</i>
<i>Wages</i>	\$17.73	\$24.03
<i>Benefits</i>	\$7.45	\$11.13
<i>Compensation</i>	\$25.18	\$35.16

These statistics may actually understate the disparity between the public and private sectors. First, federal employees, who are generally well-paid, are not counted. Second, low paid, gray market private sector workers, otherwise known as working “under the table” are unlikely to show up on statistics gathered by the federal Department of Labor in cooperation with employers who are violating state and federal labor and tax laws. Further, it is reasonable to believe that these surveys are biased in favor of larger companies which have staff available to provide information to the surveyors and against small firms which lack such staff and tend to pay lower wages as well.

Compensation aside, various non-monetary factors also make public employment more desirable. On average, public employees are more secure in the jobs than private workers. Public employees benefit from civil service laws or from union representation to a much greater extent than private workers. Public employees ultimately rely on the ever-present taxing power while private workers employment usually depends on the vagaries of the market, even the world market.

**The correlation between high taxes and high personnel costs**

We can confirm our conclusion by looking at the problem from an entirely different perspective. New York and Erie County have higher taxes

compared to other areas of the United States.<sup>4</sup> New York's state and local taxes combined are about 26 percent higher than the national average.<sup>5</sup> Most state and local expenditures are for personnel or transfer payments such as Medicaid. If our taxes are higher, it is presumably because our expenditures are higher. There is in fact a rough correlation between the public-sector/private sector wage and benefit differential and the New York State/other states tax differential. In any event, *there is no way New York can close the tax gap without slashing personnel costs.*

### **Should there be a wage gap?**

Wages in the private sector are determined by supply and demand, competition, contract and choice. Wages in the public sector are determined largely by the political power of the employees who are often organized in unions and/or political organizations. The law of supply and demand only dimly operates where taxpayers, in contrast to private employers paying wages, have no choice but to pay the taxes out of which public sector salaries are paid. It is not consumer demand, but the taxman's demand, that determines public employee compensation.

Public sector wages will be driven up in accordance with the political power of the employees. The main limitation on them is the health of the economy which will ultimately place a limit on the size of public employee compensation. As a result of the continual decline in the economy in this area for many years, we have now reached the point at which a poorly-performing economy makes further increases in public employee wages foolhardy. In fact, a *contraction of wages* must occur in order for the economy to rebound and remain competitive in the national and international marketplaces.

Because of the gradual decline of the economy and increasing strength of the political forces calling for ever greater increases in public sector salaries and benefits, there is now a gross disparity between public and private sector compensation in this area. This must end.

Why? First, because there is no cogent economic rationale for such a disparity. Second, because the servants of the people should not make more money than the people themselves. Third, because an equalization of salaries is essential to a restoration of the health of the economy. Finally, because tying together private and public sector salaries will change the way government operates. An all-too-common attitude of arrogance or indifference to the plight of private workers and private

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<sup>4</sup> See, "Fixing New York State's Fiscal Practices, Citizens Budget Commission (2003); <http://www.cbcny.org/fixingnys.pdf>.

<sup>5</sup> *Id.*

business will likely change to one of concern and solicitude. Once public sector salaries are directly tied to the health of the overall economy, those who make and carry out public policies will have a strong incentive to educate themselves about those factors that produce economic growth, namely low taxes and the elimination of arbitrary and unnecessary regulations and bureaucracy.

Adoption of these principles will alter the primary political dynamic in this area: class warfare between *net taxpayers* and *net tax consumers*.<sup>6</sup>

The enmity that has arisen between these classes because of the disparity in wages and working conditions will greatly lessen. We can then move forward as one economic community fighting to restore our former economic greatness as we must in the new era of global competition with emerging giants such as China and India. . . .

### **A Necessary Adjustment**

Whether we look at the gap between private sector and public sector wages here, or the gap between local taxes here and elsewhere, we find a gap of twenty percent or higher. The solution is obvious: *we need an across the board public compensation reduction of at least twenty percent*. It has to be across the board or else insufficient savings will be achieved to allow for the necessary tax cuts. It also needs to be across the board because such cuts simply cannot be made on an individualized basis. If done on that basis, politics and personalities would creep into the mix with chaos and unfairness the likely result.

[For a more complete discussion of this issue, please read the entire report.<sup>7</sup>]

If we apply the 20 percent rule to Amherst, we can generate net savings of about \$12 million.<sup>8</sup> This would allow for a *sixteen percent reduction in property taxes*. See Figure No. 2.

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<sup>6</sup> The net tax consumers, though outnumbered, usually win. See, Political Class Dismissed, pp. 18-31.

<sup>7</sup> <http://freebuffalo.org/articles/policyreports/freebuffalopolicyreportno2.pdf>

<sup>8</sup> Should the 20 percent rule be modified in Amherst because Amherst has higher median income than the metropolitan area? This can be argued both ways and is an issue that will be further studied by our Citizens' Budget Committee.

**Figure No. 2**

Amherst Town Budget	\$107,877,958
Total Personnel Costs	\$59,921,759
Reduced by 20 Percent	\$11,984,351
Amherst Property Tax	\$74,603,126
Reduced by \$11,984,351	\$62,618,775
<b>Property Tax Reduction</b>	<b>16 Percent</b>

As for the remainder of Amherst's budget, we believe that Amherst residents themselves should review that budget and determine if further cuts can and should be made.

We have formed a committee of Amherst residents to engage in this review and publish their recommendations. Membership on the committee is open to all Amherst residents. Those interested in serving should contact Free Buffalo at 566-7720 for details.

The Amherst Citizens' Budget Committee will release its findings in a timely manner so they can be considered in formulating the 2007 budget.