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Cuba Cuts One Million Public Jobs… California State Pensions $500 Billion Underwater

Posted by Andrew on October 8th 2010

Red Ink Rising

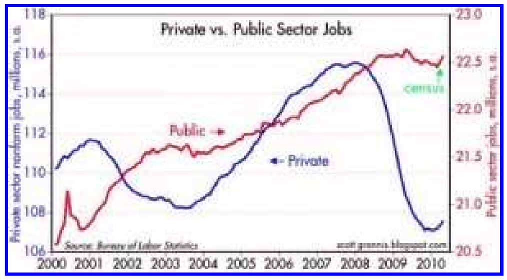
I've already discussed how the federal government's budget is bleeding red ink. Well, the state's aren't much better. A recent Stanford University report concluded that California's public employee's pension fund was an astronomical $500 billion dollars underwater! As it stated:

> "The California Public Employees' Retirement System, the largest U.S. public pension fund; the California State Teachers' Retirement System, the second-biggest, and the University of California Retirement System are understating their future liabilities by using projected rates of return that don't properly account for investment risk, the Stanford Institute for Economic Policy said today.
>
> The report, from five Stanford graduate students and their faculty adviser, said the funds estimate average annual returns of 7.5 percent to 8 percent. The funds ought to use a more conservative calculation of 4.14 percent, the report said."

Their conclusions are controversial, but regardless of where you look, California is short by hundreds of billions of dollars solely to pay the retirement benefits of its public employees. And while California is in the worst shape, every other state is only good by comparison (except perhaps Texas).

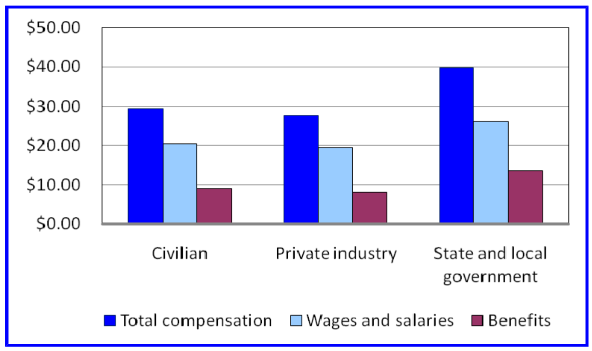
The Pew Center on the States reported that "U.S. states face a total shortfall of at least $1 trillion in their funds for employees' pensions and retirement benefits" and *Bloomberg* reported back in June that 46 out of the 50 states could face "Greek-style" debt crises. We'll just forget about the $1.4 trillion federal deficit and unsustainable levels of unfunded liabilities.

All the while, however, the government has pushed billions of dollars into increasing the public payroll through the stimulus package and other measures. As a result, the public sector is becoming a larger and larger share of the economy:



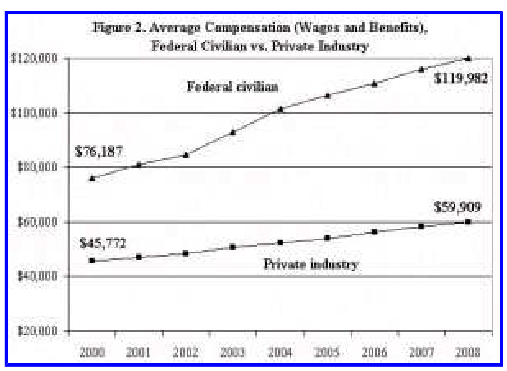
Source: SeekingAlpha.com

Furthermore, government workers are typically paid more than those in the private sector. Since private firms must keep payrolls in line with economic reality while government employees rely on taxes that are paid for by a diffused group of taxpayers. This makes it easier for politicians to buy votes by increasing public employee benefits. As Milton Friedman put it "…a producer group tends to be more concentrated politically than a consumer group." (*Capitalism and Freedom*, pg. 143). And the same goes for public employees as opposed to taxpayers.



Source: BLS.gov

This gap is especially large and growing among federal employees and private sector employees. The difference today in wages and benefits amounts to almost 100%!



Source: Cato.org

Now the United States is not the only country facing debt problems by any means. Some have taken measures to rein in spending and others have stuck their heads in the sand. And interestingly enough, our semi-totalitarian island neighbor to the south has taken a radical turn toward austerity.

Cuba has announced plans to cut one million government jobs, half of them in the next six months! It's hard to understate how radical this plan is. Cuba has only 11 million inhabitants. The United States has 304 million! If the United States cut an equivalent number of public employees it would lay off 13.5 million in the next six months and 27 million overall! I should probably also note that the United States only has about 20 million public employees.

Now admittedly, this is not a fair comparison. The U.S. government does not typically run firms (although they are moving more and more in that direction). In contrast, according to the *BBC*, "Cuba's communist government currently controls almost all aspects of the country's economy and employs about 85% of the official workforce, which is put at 5.1 million people."

Still, that's a 20% reduction in the public payroll. The official statement defended the decision as follows:

> "Our state cannot and should not continue maintaining companies, productive entities, services and budgeted sectors with bloated payrolls and losses that hurt the economy."

And some of the proposals are downright inspiring (for a free market economist at least):

> "To create jobs for the redundant workers, strict rules limiting private enterprise will be relaxed and many more licenses will be issued for people to become self-employed. Private businesses will be allowed to employ staff for the first time."

The citizens of Cuba are obviously anxious about the massive layoffs as they should be. Still, this represents a huge move toward the free market and will hopefully lead Cuba to become a more free, open and prosperous nation, even if it will be painful in the short term.

And quite frankly, as awful as it is to say, the United States needs to take a lesson from our communist neighbors. We need to cut down on federal and state spending, pensions, and wages. It's not an easy or painless thing to do by any means. The purpose of this article is certainly not to beat up on public employees; teachers, firefighters, police officers and other public employees obviously serve vital functions. The problem is we are facing national and statewide insolvency and need to realign our expenditures with reality. If we don't, reality will come at us in the form of a giant cliff.

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