Why The Nationwide Pension Crisis Is An Opportunity To Reinvigorate Society

Citizens and local leaders should use the looming pension crisis in many states and cities to release local governments from centralized control.

By Lewis M. Andrews

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Much has been written in recent years about the looming crisis of underfunded public employee pensions, estimated by the Pew Foundation to total $1.38 trillion. Not a day goes by without some headline about a major city having to scrimp on essential services just to pay retirement funds, much of which to people who are no longer working.

In fact, American taxpayers and their elected representative have far more leverage on this issue than they realize. Instead of wringing their hands about how to stop the pension problems of Detroit from coming to their own communities, they should aggressively use the desire of government workers to preserve retirement promises to engineer long-delayed reforms, especially with regard to public education.

What gives the forces of fiscal sanity that kind of leverage?

Government Workers Can Be Allies

First, current and retired public workers have as great an interest in keeping government solvent as taxpayers do. Their leaders may try to punish outspoken Democrat pension reformers like Rhode Island gubernatorial candidate Gina Raimondo, just to show the party who is boss. They may also find it convenient to periodically indulge the rank-and-file fantasy that taxpayers can be squeezed forever. But any public employee thinking of spending 20 or more post-retirement years on a beach in Florida ultimately needs and wants his paymaster to be comfortably in the black.

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Indeed, for all the stories of union intransigence in Chicago, Philadelphia, and several California cities, many large locals across the country have been quietly renegotiating their retirement contracts. In 2011, Atlanta Mayor Kasim Reed and his city council won a plan that actually generates a budget surplus. A year later Lexington, Kentucky, municipal officials and union representatives also came to an arrangement rescuing that city's finances from onerous pension obligations.

Perhaps most surprising of all is Jacksonville, Florida, which in 2010 was ranked by Business Insider as the sixth mostly likely American city to run out of money, in large part because of insolvent police and firemen's funds. Since then, Mayor Alvin Brown established an emergency task force, which has announced a budget reform sufficiently acceptable to public safety workers that they appear on track to ratify it.

Publicize Unions' Role in the Mess

The second source of taxpayer leverage is the interest unions have in securing as much of their currently promised benefits as they can before voters figure out exactly how the payouts came to be so generous. It is already no secret that politicians have colluded for decades with the leaders of public unions, trading irresponsible pension increases for campaign contributions.

Less well-known is that the 2009 federal stimulus package, falsely advertised by President Obama and the Democrat-controlled Congress as an infrastructure program, allowed state and municipal governments to continue honoring these contracted pay and benefit increases while private-sector employment stagnated. In sharp contrast to public unions in many European countries, who have been forced to accept laws reducing benefits as the percentage of workers in the population declines, America's public employees are among the biggest winners of the 2008 financial crisis.

End Exorbitant Benefits Packages

Finally, and most importantly, taxpayers have the ability to make good on previously promised pension payouts by simply balancing the government's books with givebacks from future workers—demanding concessions such as larger co-pays and longer vesting periods from new hires.

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The Atlanta reform, for example, extends the retirement age for new employees and gives them a smaller defined benefit supplemented with something similar to a private company's 401(k). Lexington's future hires will be on the job five years longer, must put in 25 years before retirement benefits kick in, and face declining cost-of-living adjustments (COLAs). Jacksonville's new employees are slated to get a reduced pension package as well.

Current and retired public employees have few compunctions about sacrificing the next generation for their own financial security, just as long so-called “two-tiered” initiatives appear to come from the other side of the bargaining table. Indeed, one of the best-kept secrets about Detroit, where unions cried crocodile tears about a 4.5 percent pension cut, is that new hires who retire after 30 years will receive pensions worth 40 percent less in inflation-adjusted dollars than those who retired in 2011, a new-to-old worker sacrifice ratio of 10-to-1.

Don’t Stop There

After years of statistics showing that public employees are better compensated than private sectors workers for comparable work, fiscal hawks might be content to just accept this trade-off between kept pension promises and reduced benefits going forward. After all, the revised terms for new hires are probably closer to what current and retired public employees should have been getting all along. But to stop with scaled-down employment packages for future workers would be to sacrifice an historic opportunity to reinvigorate civil society with the kind of flexibility whose value over time dwarfs even the princely sums currently owed to underfunded pensions.

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As far back as 1980, then-New York Mayor Ed Koch wrote an article for the policy journal Public Interest warning that the greatest threat to his city’s future came from the Albany legislature’s creeping encroachment on municipal decision making. It was aptly titled “The Mandate Millstone” and detailed the maze of state rules and regulations designed by public unions to prevent localities from experimenting with programs that might inconvenience union members.

In the 35 years since Koch’s article, state politicians have claimed to control mandates with procedures that supposedly strip needless requirements from new laws, and with vague promises to provide localities enough money to implement regulations, but the number of stifling statutes continues to grow. As Jason Bedrick, a policy analyst for the Cato Institute who once served in the New Hampshire legislature, has observed, whenever unions cannot stop a law they dislike, their political allies typically load it down with as many burdensome mandates as possible.

In 2008, Vicki Murray did a study for California’s Pacific Research Institute, putting the cost to taxpayers of that state’s top-down regulation of public education at up to $13.9 billion annually. Today the most onerous mandates across the country are still on education, which can account for as much as 70 percent of a municipality’s budget.

These include not only the more familiar restrictions on paying charter schools and terminating poorly performing teachers, but state statutes which make it impossible to hire administrators with private-sector experience. In my own town of Redding, Connecticut, the local Board of

Finance is discouraged from lowering the school budget to accommodate declining enrollment by a law that cuts state subsidies if public education expenses ever go down.

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Other state mandates badly need reform or elimination, according to John Harkins, chair of the newly formed American City County Exchange, are those related to health insurance, business licensing, and energy taxes. Since public unions have used their political clout in state capitols to hamstring localities for so long, any pension reform that does not reverse such legislative paternalism is a wasted opportunity.

If the nation's public employees really want their pensions to survive the current financial crisis, the least they could do is leave the voters paying the bill with the municipal freedom that once made local government in America the envy of the world.