Public Pensions and the Verdict of the Voters

BY: Stephen Goldsmith | June 20, 2012

This month's elections may have marked a turning point in state and local governments' quest to balance citizens' expectations of public services with what taxpayers can afford to pay.

Just as voters nationwide have reached a state of extreme anxiety about the increasing likelihood of fiscal calamity at the national level, governors and mayors, who are constrained in their ability to pile on debt and are more directly accountable to voters for competence in financial management, are making substantial progress.

Public officials who want to take on the battles of right-sizing and affordability should look not just to Wisconsin but also to California, where Republican Mayor Jerry Sanders in San Diego and Democratic Mayor Chuck Reed in San Jose led successful ballot measures to rein in unsustainable public-pension costs that already were taking a heavy toll on public services.

Despite the tone of the national debates, however, these lessons are not about a simplistic divide between labor unions and public officials. Rather, they represent the message that concerned public officials can lead tough battles and survive. And despite the anger that these elections have produced, the overall public-sector workforce did not lose.

Indeed, the ironic result of efforts such as the ones in California is that local governments will be able to afford more critical labor, not less. Across the country, elected officials are being forced to slash the jobs of essential workers — teachers, firefighters, police officers, sanitation workers and more — in order to pay the rapidly increasing costs of pensions and health benefits for retired government employees. In New York City over the last 10 years, pension contributions from operating resources have increased from $1.5 billion a year to almost $10 billion. San Diego's retirement-related expenses went from $43 million in 1999 to $231.2 million in 2012 — 20 percent of the city's total budget. And San Jose's annual retirement-related contributions also are consuming a fifth of the city's revenue, up from $73 million in 2001 to $245 million this year.

These costs have resulted in service cuts along with reductions in the public-sector workforce. San Diego has cut its workforce by 14 percent. San Jose, which has cut its workforce by a full 27 percent, could not open four libraries for a year after they had been built.

The voting in those cities made clear that their residents were painfully aware of the impact of ballooning public-pension costs on the government services they value. The pension measures in San Diego — which, among other things, provide for 401(k)-style plans for new hires and end pension "spiking" for current and future employees — were approved by two-thirds of the city's voters. In San Jose, the margin was even higher, with 70 percent of the voters approving measures that include creating a lower-cost option for existing employees and raising the retirement age, capping the maximum retirement benefit and limiting cost-of-living increases for all new hires. The savings in each city could reach a billion dollars over 30 years.

We should be careful, however, to understand the real political lessons of these votes. They were not expressions of anti-public-employee sentiment. Rather, they were about stressed taxpayers balancing their cities' huge fiscal challenges against public workers' pensions that many of the voters viewed as better than their own. What these votes show is that a strong public leader can galvanize a public that in the past has been outmaneuvered by those with a direct stake in the subject.

This kind of leadership can also emanate from public employees themselves. In my time as mayor of Indianapolis, the American Federation of State, County and Municipal Employees' very aggressive local leadership reached the conclusion that the union's members could not prosper if the city slid into a financial abyss They became partners in enhancing productivity.

Vested interests, whether unions or corporations doing business with or regulated by government, advocate in their own best interests. The problem is not their advocacy but rather that it often has trumped the general good. The votes in the two California cities bring hope that strong leadership can recalibrate this balance.