Opinion: Voters should have a say in public pensions

By David Crane

In his State of the State address, Gov. Jerry Brown said that "it would be unconscionable (for the Legislature) to tell the electors of this state that they have no right to decide whether it is better to (extend taxes) or to chop another $12 billion out of schools, public safety, our universities and our system of caring for the most vulnerable." Surely most Californians would agree.

But taxes are just one side of the budget coin, the other being expenses. At the same time as they vote on taxes to help close the deficit, shouldn't voters also have a say about costs that contribute to that deficit?

Voters now have some rights in that regard. The state can issue general obligation bonds only with their approval, and voters have determined by initiative that the state must prioritize spending on K-14 education.

But voters don't get a say over the largest expenditure by governments, which is employee compensation and benefits. Instead, that spending is determined through negotiations between labor, largely represented by public employee unions, and management, represented by the Legislature and the governor.

In the private sector, labor-management negotiations are generally at arm's length, with management representing shareholders, union leaders representing workers, and neither side exercising influence over the other. But not so in the public sector, where labor can and does exercise influence over management through political contributions and activities. The California Fair Political Practices Commission reports that public-employee labor unions are the largest contributors to political campaigns. As a result, the citizens bearing the costs really aren’t at the table.

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Worse, politicians can incur debt for employee retirement benefits without voter approval. That debt – now the largest of what is owed by the state – is created when politicians promise retirement benefits but don’t fund them at all or fund them inadequately. The latter happens when public pension funds assume unrealistically high rates of return on investments. The more money assumed from investment earnings, the less money need be set aside by politicians when they make the retirement promises. Enabled by that fiction, politicians can promise retirement benefits for a fraction of their real cost – until the earnings don’t materialize. By then, those politicians are long gone and in their place is mountainous debt.