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Deadbeat Governments: New Yorker.

’Tis the season for taking retirement benefits away from public workers. In Detroit, an emergency manager has steered the city into bankruptcy, in part to avoid its pension obligations. In Illinois, the legislature just passed a bill cutting pensions and raising the retirement age for state workers, in the hope of saving a hundred and sixty billion dollars in pension costs over the next thirty years. And these moves are only the most dramatic instances of a broader trend: between 2009 and 2012, forty-five states passed some kind of pension reform. Pensions are supposed to be dull and reliable. But they’re now the locus of bruising political battles.

The reason is simple: though plenty of states and cities have managed to maintain healthy pension funds, in many places pension costs are eating up huge chunks of the budget. New Jersey’s and California’s pension funds are both in deep holes. San Diego now spends more than twenty per cent of its operating budget on pensions; San Jose spends a quarter of its budget on them. Illinois needs to come up with nearly a hundred billion dollars just to pay off obligations it is already committed to.

How did states and cities get into this jam? By following Mark Twain’s famous dictum: Never put off till tomorrow what you can do the day after tomorrow. In principle, providing for pensions isn’t difficult: governments set aside money every year to fund them, just as workers contribute a percentage of their salary every year. But that means raising taxes or spending less on things that voters like, so politicians often just let pension contributions slide, passing the bill on to future taxpayers. Politicians are adept at rationalizing such irresponsible behavior. When markets are up and pension funds are flush, they say that there’s no need to add money. When times are bad and tax revenue drops, they say that they can’t afford contributions. Illinois, for instance, has been shortchanging its pension fund forever. “The politicians in Illinois are deadbeats,” Alicia Munnell, the director of the Center for Retirement Research, at Boston College, told me. “They just did not pay their bills, and, lo and behold, they’re finding that they can’t make up for all those years of not doing what they were supposed to do.”

Governments also got in the habit of promising workers higher pensions in the future so that they would accept lower wages in the present. To make matters worse, whenever pension funds looked especially robust public employees lobbied for higher pensions, and politicians were all too willing to grant them. In 1999, at the height of the tech bubble, California retroactively increased benefits for every government employee by twenty-five to fifty per cent. This was terrible policy. As Munnell says, “You have to put aside the excess return you earn in good times to cover your costs when the bad times hit.” But lots of states did similar things. Even more egregious, Detroit’s pension fund routinely sent bonus payments to retirees whenever it had a good year. This weakened the fund and increased the burden on taxpayers, but, since pension accounting is eye-glazingly dull, few complained.

Everyone pushed off the day of reckoning, with no real thought for the taxpayers who would eventually have to foot the bill. Now that that day has arrived, you can see why governments want to claw back some of the benefits that were handed out. But this would be unjust: state and city employees worked for those benefits—teaching kids, policing the streets, and so on—and they often did so for lower wages than they would have accepted with no promise of a pension. Governments should live up to their obligations, but we can’t let them make irresponsible promises again. The temptation to defer expenditure is intrinsically hard for politicians to resist. We need reforms to control costs and to insure that governments actually pay their bills.

That doesn’t mean, as many have argued, that we should scrap pensions and replace them with something like 401(k)s. As Munnell’s work shows, the system works if it’s funded properly, and 401(k)s force workers to bear too much market risk, leaving many with inadequate savings for retirement. Instead, as has already happened in many states, retirement ages should be raised, cost-of-living adjustments lowered, and employee contributions increased. It would also be a good idea to bring all state and municipal employees into Social Security. Trimming retirement benefits will mean paying higher wages, it’s true. But this is a good thing, since it will force politicians to be honest about how much they’re spending.

Finally, governments should be legally required to make pension contributions every year. Right now, an independent body called the Government Accounting Standards Board tells each state what its “annual required contribution” is. But there’s no legal force behind that, so it’s more like a “suggested contribution.” In 1974, Congress passed a law requiring corporations with pension plans to fund them adequately. It should do the same for states and cities. The effects could be interesting: healthier pension funds will make it less likely that retirees will suddenly find themselves out in the cold, but, once states have to be truthful about the cost of public services, they may cut back. Either way, it’s time to end the game of “Enjoy now, pay later.”

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