Something Fishy about the Pew Report

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Everyone knows that there's an enormous looming crisis of underfunded public pensions, a veritable ticking time bomb that will saddle every man, woman and child with insurmountable debt. We know this because, among other reasons, the widely respected Pew Center for the States published a study entitled, "The Trillion Dollar Gap." We know this because it echoes through the media — print, internet or talking head. A Google search shows more than 29,000 results for this pairing. The Pew report is the reference point for rabid Tea Partiers, Republican demagogues and resigned Democrats.

The Pew report drives the dominant narrative. This trillion dollar gap, it is argued, burdens every household with a crushing $8,800 bill, threatening to destroy the plans of ordinary working people. Because of pampered civil servants, Joe the plumber may never be able provide for his children's education or prepare for his own retirement. Something must be done. Freeloading teachers and sanitation workers, public defenders and file clerks, nurses and firefighters will have to carry their own weight just as Joe the plumber does.

One would think that those who quote the conclusions of the report might also have actually read the report. But that would be asking too much. It seems that the $8,800 bill is what is owed not now, but over the course of 30 years. That comes to less than $300 dollars per year, or $75 per capita annually. It also presumes that the burden is distributed evenly between rich and poor; and therefore makes no attempt to differentiate between median and average burdens. It additionally assumes that there are no mitigating offsets by means of taxes on business profits or activities which could relieve the burden on individual families. When these considerations are added to the mix the problem seems a bit less dream crushing and soul searing. Then again, without the drama there is no story.

And yet this simply assumes that the Pew report makes sense on its own terms. It assumes too much.

If it's too much to insist that the public be offered a closer reading, let's settle on simply an actual reading. It seems that this trillion dollar gap in the Pew report is the difference between the anticipated collective liabilities of more than $3.35 trillion due 30 years in the *future* and the $2.35 trillion in assets *currently* amassed in the public pension systems at the end of fiscal year 2008. Who in their right minds makes such comparisons? It would mean that net contributions to the system over the course of the next 30 years are expected to be exactly zero. Expected by whom? And why?

Perhaps because the manufactured urgency of the crisis can be best driven by screaming tabloid headlines suggesting that in the 29th year every family in America will be hit with an $8800 bill unless something drastic is done now to discipline the outsized appetites of public workers. And a good portion of the Pew report deals with such reforms as eliminating early retirements and reducing pension COLAs and raising employee contributions.

But surely anything that hoped to pass for a rational discussion would first have to compare projected assets thirty years in the future with projected liabilities 30 years in the future. One would be hard pressed to find this calculation anywhere in the report. So let's make a thought experiment. Let's assume that net contributions grow at one half of the historic growth rate that the private sector experienced in the past 80 years, or 1.7%. At that rate compounded over the course of 30 years, the $2.35 trillion dollars in assets currently available would grow to $3.9 trillion, yielding a modest *surplus* of $550 billion.

This roughly means that if real wages in the public sector grew by a modest 1.7% annually over the course of that period, and the investments portion net of withdrawals similarly grew at an annual rate 1.7%, a workforce of a *given* size would easily generate enough additional assets to cover anticipated liabilities. And it would do so without hitting the private sector for supplementary subsidies or requiring public workers to up their contributions levels to pension funds. Any combination of growth in the size of public employment, wages or returns on investment would drive the surplus even higher.

Now according to the government accountants, with whom Pew *concurs*, a properly funded pension fund need only have assets amounting to 80% of liabilities. That would mean that the combined assets of the states would only have to grow by a very modest $2.8 trillion in the course of 30 years. This would require the 1.7% figure to be adjusted downward to about 0.5%, a very miniscule rate of growth indeed.

Of course if, like New Jersey, the states default on their obligation to make payments to the pension funds from that part of workers' compensation packages contractually earmarked for such purpose, all bets are off. But this is a different set of problems altogether. It's called theft of service. The Pew report is remarkably nonjudgmental on this point. But, if a private sector corporation deducted social security payroll taxes and then, rather than paying the treasury, used them to offset other business revenue shortfalls, the public would be outraged. Most workers could readily identify. No one would accept a hectoring lecture from a CEO, as NJ public workers have had to endure from Governor Christie, advising them that if they expect to see a social security check in their future, they'd have to double down in their contributions to make up for this theft. However this rhetoric appears to be perfectly acceptable to the public when state workers are involved, in no small part because the corporate media will not draw the appropriate parallels.

There is not much that socialists can do to intervene in the public debate. Our opinions are rarely invoked and never solicited. What we should do, however, is make every effort to not let nonsense pass unchallenged as incontrovertible fact.

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