



Iowa's Privileged Class

by Don Racheter, Ph.D.

Recently, we were contacted by an Iowan who had seen a newspaper article about the work of Public Interest Institute (PII),¹ Iowans for Tax Relief (ITR),² and the Iowa Chapter of Americans for Prosperity (AFP)³ to protect taxpayers. He wrote to us about what he perceived to be the unconstitutionality, illegality, and immorality of politicians and bureaucrats having a different and more lucrative pension system than the Social Security system the government has established for regular citizens. Since PII staff has often written about this topic⁴ and the more general topic of how civil servants in our state have become “A Privileged Class,”⁵ we were happy to discuss this citizen’s concerns with him and learn what new information and insights he might have to share. Three major arguments emerged from the wealth of oral and written material he provided.

First, when the federal government established the Social Security system in the 1930s, it was supposed to “treat everyone in the nation equally.” However, right from the start many types of citizens, including state and local government employees, were not required to participate in the system.⁶ Many private-sector employers provided a pension system in addition to Social Security, often matching the contributions the employee set aside from his compensation to ensure he would have an income stream upon retirement. As time passed, many state and local governments established pension systems for their employees; they argue that they are merely following the example of their private counterparts. The rejoinder is that the benefits promised to public employees — financed by taxpayers — are more generous, thus creating an unequal “privileged class.” This is contrary to the basic tenets of democracy, according to which there should be no “elites” or “privileged class.”

Second, a citizen’s ability to challenge such unfair and unequal treatment of public employees is blocked by the very politicians and judges who benefit from these more generous pension systems. If a citizen asks his Legislators or Chief Executive to lead the charge to change such pension systems, they are unlikely to respond positively because they benefit from these programs. If a taxpayer tries to sue the government over this issue, he is told he doesn’t “have standing” to bring such an action because he has not suffered a particular harm and merely having to pay additional taxes is not justification for suing the government.⁷ More ominously, any individual who benefits from a system that is being challenged suffers from a conflict of interest and should recuse himself from making decisions about it.

Third, there is an incentive built into collective bargaining laws covering public employees, which results in politicians promising more generous future benefits without adequately funding those future benefits by immediately voting to raise taxes. It is not fair to either the taxpayers or the public employees covered by the plans to create such unfunded liabilities. The politicians' incentives incline them to put off the pain of raising taxes, which might generate taxpayer rebellion, while reaping the profits of electoral support from the public employees gaining these benefits (especially from their unions). Most think — correctly — that citizens and taxpayers in general aren't paying much attention to politics and government and that by the time anyone notices there is an unfunded liability crisis, the politicians will no longer be in office to deal with it.



Endnotes:

- 1 <<http://www.limitedgovernment.org>> accessed on December 16, 2016.
- 2 <<http://www.taxrelief.org>> accessed on December 16, 2016.
- 3 <<https://americansforprosperity.org/contact-us>> accessed on December 16, 2016.
- 4 Dr. Don Racheter, "DB to DC, ASAP!," INSTITUTE BRIEF (May 2016); Deborah D. Thornton, "IPERS – Is 'OK' Good Enough?," INSTITUTE BRIEF (February 2014); Deborah D. Thornton, "Innovative Reforms in Utah – an Example for Iowa," INSTITUTE BRIEF (January 2014); Deborah D. Thornton, "Iowa Legislature and Governor Need to Focus on Pension Reform," POLICY STUDY (October 2013); Deborah D. Thornton, "IPERS Needs More Reform," INSTITUTE BRIEF (February 2012).
- 5 Amy K. Frantz, "Iowa's Privileged Class: State-Government Employees," INSTITUTE BRIEF (June 2014); David Hogberg, "Reforming Iowa's Collective Bargaining Laws," INSTITUTE BRIEF (May 2003); Deborah D. Thornton, "Iowa's Privileged Class: Time for a Change!," POLICY STUDY (January 2012); Amy K. Frantz, "Iowa's Privileged Class: State Government Employees," POLICY STUDY (April 2014).
- 6 "Groups that do not pay into the Social Security System," *Zacks Investment Research*, <<http://finance.zacks.com/groups-not-pay-social-security-system-8212.html>> accessed on December 16, 2016; John DeMerceau, "Who is Exempt from Social Security Tax?," *Zacks Investment Research*, <<http://finance.zacks.com/exempt-social-security-tax-2657.html>> accessed on December 16, 2016.
- 7 *Massachusetts v. Mellon*, 262 U.S. 447 (1923) was a case handed down by the United States Supreme Court which rejected suits by the state of Massachusetts and the city of Frothingham to prevent federal government expenditures on the basis of the Tenth Amendment to the United States Constitution because they did not suffer particularized harm. In the opinion, the Court wrote, "The party who invokes the power must be able to show not only that the statute is invalid, but that he has sustained or is immediately in danger of sustaining some direct injury as the result of its enforcement, and not merely that he suffers in some indefinite way in common with people generally." <https://en.wikipedia.org/wiki/Massachusetts_v._Mellon> accessed on December 16, 2016.

*Dr. Don Racheter is President of Public Interest Institute, Muscatine, Iowa.
Contact him at Public.Interest.Institute@LimitedGovernment.org.*

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