

# San Jose, California moves to slash pensions

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Earlier this month the city of San Jose in California finished its closing arguments in a court case over an effort to cut public employees pensions by referendum last year. The results of that referendum and the ensuing legal dispute are being watched by cities across the country looking for a way to slash pensions without going through bankruptcy like Stockton, California or Detroit.

At issue in the case is whether San Jose can force a new contract on public employees by referendum, reducing pension plans for both new hires and current employees, without bargaining with the unions.

Under the referendum last year, current employees would be given the option of maintaining their current plan by paying up to 16 percent more or switching over to a worse plan with a higher retirement age, lower cost-of-living increase, and that accrues more slowly. New hires would only have access to a plan with even worse benefits and would be required to contribute half its cost.

In court the city argues that it can legally change employees' pension plans as long as they leave untouched benefits that have already accrued.

Like many cities, San Jose has responded to the economic crisis by slashing services and attacking public employees. In California since 2008, 668,000 state and local government jobs have been cut. In San Jose, 1,592 city employees, over 20 percent, have lost their jobs while those that remained took a 10 percent pay cut. At the same time, San Jose has left four new libraries it built closed due to lack of funds, and reduced fire coverage.

The Democratic mayor of San Jose, Chuck Reed, has laid the blame for these cuts squarely on the pension system. Between 2007 and 2009, investment losses in the city's pension plan amounted to \$1 billion and unlike the major banks and insurance companies, pension plans were not bailed out by the federal

government. Maintaining the pension fund following that crash now makes up a fifth of the city's general fund.

In order to get the referendum against pensions passed, Reed launched a campaign threatening funding to every city function unless voters agreed to cut the "extremely expensive" benefits of city employees.

Like California Governor Jerry Brown, and President Obama, Reed is using the economic crisis as a pretext to attack the living standards of workers under the guise of "pension reform," "fiscal responsibility," and "sustainable budgets." However, this attack on pensions cuts across a traditional cash cow of the union bureaucracies, which in turn support the Democratic Party.

In pushing through these cuts the Democrats will broach no dissent, no matter how timid, from the unions. According to Reed, Democrats need to lead the way on pensions cuts. "It can't become something that Republicans are doing to unions," he said.

It was the public employee unions that launched the court case on the grounds that the city should have to negotiate in order to change current contracts. In principle these unions, such as the American Federation of State, County and Municipal Employees (AFSCME), have no objection to cuts in any of their members' compensation, they merely want "a seat at the table."

The unions have maintained their support for the Democratic Party irrespective of Governor Brown's "pension reform," and Congress' "sequester cuts." In city after city like San Jose, they have agreed to wage and benefit cuts under the premise of "shared sacrifice."

Unlike cities such as Stockton or Detroit, which face Depression-era levels of poverty, San Jose has one of the highest median household incomes in the country thanks to the relatively booming tech sector. At

\$77,000, the median income is over three times larger than that of Detroit, at \$25,000.

The wealth of San Jose and the tech companies in the area is central to why San Jose is not seeking bankruptcy protection to attack city workers. In a bankruptcy court the bondholders who loaned the city money would face a potential reduction of principal.

If Reed succeeds in his efforts to cut pensions by referendum it would open up a new tool for cities to attack pensions without lowering their credit rating or reducing the profits of the banks. It would open the door to cities across the country, in much better condition than Detroit or Stockton, slashing benefits.



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