Project Syndicate

Performance-Based Pensions for Politicians

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NEW YORK – When the Speaker of the US House of Representatives, Paul Ryan, retires at the end of his term in January, he will likely qualify for an annual government pension of more than $80,000. Ryan's case – and that of the dozens of other members of Congress who will be retiring this year – highlights the chasm between the financial benefits available to politicians and those available to the vast majority of citizens they are supposed to serve, regardless of how well they actually perform in office.

Confident that their own generous pensions will be paid out no matter what, politicians like Ryan often advocate measures that weaken the government's fiscal position. The Congressional Budget Office has cautioned that the US government deficit is on course to triple over the next 30 years, from 2.9% of GDP in 2017 to 9.8% in 2047.

Among other things, that fiscal blowout will undermine the government's ability to invest in education and infrastructure for future generations. Meanwhile, only 15% of private-sector employees – people who presumably rely on government-funded education and infrastructure – receive the type of fixed-benefit retirement plan that will cushion Ryan's retirement, according to the Pension Rights Center.

To restore fairness, the government should follow the private sector's lead and link politicians' pensions to their performance. Like high-level managers at publicly traded private companies, policymakers who made bad decisions should face clawbacks, in the form of reduced pensions.

A pension is a long-term commitment from the state – and, ultimately, the taxpayer – to an individual politician. If politicians are receiving pensions starting at age 50, as Ryan will, retirement benefits could realistically be paid out for 40-plus years. It would appear fair, therefore, to link that long-term reward to the long-term effects of the policies they supported while in office.

The effects should be measured according to a variety of indicators, including the quality of education, health outcomes, and economic indicators like GDP growth, inflation, unemployment, and income inequality. Such comprehensive quantitative assessments would not only give politicians greater incentive to make smart – not just politically expedient – choices, but also help voters make more informed decisions about who should represent them.
A version of this scheme is already in place in Singapore, where ministers receive bonuses if the government hits targets for GDP growth, income growth (including a measure of how earnings are progressing for the bottom 20%), and unemployment. According to a 2013 Mercer study, ministers in Singapore can expect to receive variable pay of up to 50%-60% of their base compensation.

The point, to be sure, is not to reduce political leaders' overall pay, but rather to ensure that they deserve what they earn. With an annual salary of $1.63 million, Singapore's prime minister is the world's highest-paid leader, receiving as much as the leaders of Germany ($299,784), Italy ($131,608), Japan ($202,700), and the United Kingdom ($215,980) combined.

Yet Singapore's citizens rarely gripe about that salary, because they perceive their country to be well-run and with good future prospects. By contrast, in the US – where a president typically earns $400,000, and President Donald Trump donates his salary to various causes – public trust in government is near historic lows.

So citizens do seem willing to accept high pay for their leaders. But those leaders should have to earn it, just as any private-sector worker must. That means designing and championing policies that will bring real, long-lasting benefits to their country.

Adjusting politicians' compensation to incentivize improved economic, educational, and health outcomes will not be easy – not least because politicians themselves would have to agree to the change. But now might be an ideal moment to tackle that challenge, given the attention currently being paid to improving pay equity, which includes closing the gender pay gap, confronting rising income inequality, and reducing the ratio of CEOs' compensation to that of the median employee.

In any case, opposing performance-based pay would not be a good look for politicians. If they are truly confident that the policies they support will benefit the public, politicians should be willing to put their pension – or, at least part of it – on the line.

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