US House committee hearing takes aim at public sector pensions

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A subcommittee of the US House Committee on Oversight & Government Reform held a hearing February 9 to prepare the way for attacks on the pension benefits of millions of state and municipal workers across the United States.

The hearing, titled "State and Municipal Debt: the Coming Crisis?" was held the same day as the introduction of a bill by Rep. Devin Nunes, Republican of California, to prohibit bailouts of states by the federal government.

The House's Subcommittee on TARP (Troubled Asset Relief Program), Financial Services & Bailouts of Public and Private Programs questioned a panel of four experts about the potential effects on bond markets of state bankruptcies. But during the first hour of testimony the committee focused its attention on unfunded liabilities in the pension plans of millions of teachers, firefighters, transportation workers and other public employees.

The problem of state budget deficits—estimated to total between $125 billion and $140 billion and exacerbated by the ongoing economic crisis—is very real (See "US state budget deficits could top $140 billion"). However, in his opening remarks to the subcommittee, Chairman Patrick McHenry (Republican, North Carolina) ruled out any new revenues for states and blamed the problem on a "fiscal straitjacket caused primarily by … lucrative public sector union pension and health care benefits."

These benefits, according to McHenry, will cause people to realize "in the end … that their government has actively hurt them." This statement ignores the obvious: public sector workers and their hard-won benefits are being been demonized while Wall Street has received untold billions in bailouts from the federal government.

Testimony before the subcommittee established that, depending on the rate of return of invested pension assets, the average percentage of state and municipal budgets devoted to pensions is between 3.8 and 5 percent. To McHenry, this allocation of resources to a basic social right constitutes "reckless spending."

Some Republicans have suggested that laws prohibiting states from declaring bankruptcy be altered to make it easier for state governments to rip up workers' contracts and attack pensions.

Democrats at the hearing prefaced their questions with ritualistic promises of bipartisanship and working together. In his opening remarks, ranking Democrat Mike Quigley of Illinois was servile before both McHenry and the bond rating agencies, which, he noted, have rated his home state's bonds only slightly above those of Iraq.

Arguing against any change in federal law to allow state bankruptcies, Quigley stated his belief that the problem is cyclical, and blamed actuarial practices in six to eight states, which he called "bad apples." In subsequent testimony, Iris Lav of the Center on Budget and Policy Priorities—one of four experts who testified—argued on a similar basis against bankruptcy.

In a statement introducing his Public Employee Pension Transparency bill the same day, Nunes said, "Unfortunately, this debt is masked by accounting practices that would never be tolerated in the private sector." Even putting aside all of the swindles from Enron to collateralized debt obligations, Statement 87 of the Financial Accounting Standards Board—which addresses accounting practices for private sector pensions—allows companies to underfund workers' pensions if they show a corresponding liability on their balance sheets.

McHenry claimed in his opening statement

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Wednesday that "government has outgrown our capacity to pay for it." In fact, the opposite is true: plenty of wealth exists for the provision of benefits and health care, but state and municipal governments have spent decades giving tax breaks to companies that threaten to move elsewhere or to lay off workers.

In 1995, for example, military contractor Raytheon threatened to move 16,000 jobs out of Massachusetts if the state did not give in to its demands for tax cuts. Within two years of receiving the cuts, the company had nonetheless reduced its headcount by 4,100 jobs while paying bigger salaries to executives. General Electric, which is equally reliant on military contracts, threatened this past November to lay off 150 workers at its jet engine factory in Lynn, Massachusetts if the state did not give it $25 million in tax cuts. In reporting that story, the *Boston Globe* noted that GE paid no federal income tax in 2009 because it "reported losses on its US operations."

Such bullying is a standard practice across the country. In July 2010, for example, the web site *Stateline* reported that Missouri Governor Jay Nixon had proposed $150 million in tax "incentives" for Ford if the company agreed not to close a Kansas City plant with 3,700 employees.

On Friday, the *Seattle Times* reported that the Washington state Senate had passed a $300 million tax cut for businesses, prompting state Senator Jeanne Kohl-Welles, a Democrat, to comment: "It's a really good day for businesses because we're going to be providing a permanent rate reduction to 90 percent of businesses in this state."

While bonds have traditionally only been used by state and municipal governments for capital projects (construction, roads, etc.), states like Illinois are now borrowing just to pay their operating expenses. One of those testifying before the subcommittee noted that debt service represents on average 4-5 percent of state expenditures.

On January 25, the National Association of Governors issued a statement opposing changes to federal law that would allow states to declare bankruptcy. The association expressed its fear that "the mere existence" of such a law would drive up the cost of borrowing "and create more volatility in [the] financial markets" from which state governments need to borrow, hat in hand.

The governors' statement expressed no principled opposition to the use of bankruptcy to abrogate existing contracts or attack the pensions of people who have been working—many for decades—with the promise of this benefit. McHenry made no bones during the hearing about asking the panel whether the word "default" could be broadened, legally, to include not paying pensions.

In a "recap" video posted on YouTube afterward, McHenry signaled that the February 9 questioning of "academics" was only an opening salvo, and that the subcommittee's next hearing will involve representatives of the bond markets and credit rating agencies.

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