Downgrade of Illinois credit rating prelude to attack on retired workers

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Standard & Poor's (S&P), one of the three major credit rating agencies, downgraded the state of Illinois' rating January 25, bringing it down to worst in the country. S&P announced the downgrade just prior to the state's sale of approximately $500 million in bonds on January 30.

The move is intended to serve as a shot across the bow to press Democrats who control the state government to accelerate plans to slash the pensions and health care of retired workers and reduce benefits for future retirees. There is full agreement that the working class must bear the burdens of the state's fiscal crisis, however, if no agreement has been reached, yet it is because of differences over the best way to implement the cuts without provoking mass opposition.

The downgrade brings the state's rating from A to A-. Although California also has an A- rating from S&P, the agency has given the state a positive outlook due to the massive cuts the Democratic-controlled government in that state is implementing in education, health care and other services. By assigning a negative outlook to Illinois, the banks are signaling displeasure with legislators, who they expected would use the opportunity of the recently concluded lame-duck session to institute wide-ranging cuts.

Different proposals now being debated are a prelude to wide-ranging cuts on pensions, health care, education, and other social services. As in Europe, the banks and credit ratings agencies are taking the lead demanding cuts as a condition of access to credit. Currently, Illinois has a $9 billion hole in its budget that is covered up through the systematic use of late payments. This is the equivalent of involuntary short-term loans from suppliers and service providers, including schools and colleges. Illinois took on $5.1 billion in debt in 2012, and it is estimated it will add $2 billion to $2.5 billion in 2013.

Democratic leaders thus far have not been able to come to a consensus. One group, which includes long-time Democratic machine powerbroker House Speaker Michael Madigan, wants to shift the cost of pensions for public school, college and university employees from the state to individual employers. This would include school districts, municipalities, and institutions. This approach has received the backing of Chicago mayor Rahm Emanuel because it would limit overall spending by districts, which could no longer count on state funds.

It has been widely reported that many municipalities would be forced to make further cuts in services in order to meet their new pension obligations. This has been opposed mainly by suburban and downstate legislators who fear the loss of tax revenue from Chicago, and who have instead focused their attention on instituting a freeze in the cost of living adjustment (COLA).

The ruling class has centered its fire on pensions and retiree health care by repeatedly drawing attention to the so-called unfunded pension liability that the state's five public pension systems have accrued—now estimated at $96.8 billion, and growing at a rate of $17 million per day.

Left unsaid is that a major cause of the shortfalls is the actions of successive General Assemblies and governors, which effectively borrowed against workers' pensions by diverting tax revenue intended for pensions to other state budget needs. Another cause was overly optimistic estimates of income from the pension funds' investments.

Furthermore, a variety of pension "holidays" have been approved over the past several decades, which allowed the state and its municipalities to avoid making required payments. One example of this practice is furnished by the city of Chicago, which from 1995 to 2005 made no payments to the Chicago Teachers Pension Fund, accounting for a $1.5 billion shortfall.

In other words, contrary to the claims that pension spending is spiraling out of control due to years of benefit raises to workers supposedly retiring in gilt splendor, the situation facing Illinois has been deliberately engineered. In turn, the pension "crisis" has become the pretext for a wide-ranging attack on workers, aimed at clawing back all the gains won through years of struggle.

Democratic governor Pat Quinn has made pensions the defining issue for his administration, even claiming in April of last year that he had been "put on earth" to solve the problem. In November, the governor's office unveiled a website with a cartoon mascot named "Squeezy the Pension Python" in a desperate and cynical bid to rally public support for pensions cuts. During the lame-duck session, Quinn called for legislators to agree on a plan, and when it began to appear as though the Assembly would not be passing anything, he floated a proposal for the creation of an independent pension commission with power to make changes to pension plans unless blocked by votes in both chambers of the General Assembly.

The pension plan being pushed by Democratic Senate president Cullerton as part of the new legislative session would not make any changes in pension responsibility, but would instead freeze the COLA for four years and limit the amount of the pension to which the compound COLA would apply. It would also increase employee contributions by 2 percent for two years, and impose a pension salary cap. It would include a provision aimed at ensuring payments to the pension system, likely by mandating cuts elsewhere.

Because the state constitution requires that pension benefits "shall not be diminished or impaired," the Cullerton plan tries to maintain a veneer of legality by offering workers a choice between keeping the COLA as it is and losing access to the state health care plan or accepting the reduced COLA and keeping their health care.

Particularly noteworthy in all of the pension debate is the complete refusal of the American Federation of State, County and Municipal Employees (AFSCME) to oppose pension cuts and mount any systematic defense of public sector workers.

Instead, AFSCME has limited itself to criticisms of Quinn for not including the union leadership in pension debates, and to calls for a "Pension Summit" with other unions in the We Are One Illinois coalition that would get union on board with the cuts in exchange for a protection of the bureaucracy's interests.

Rahm Emanuel followed up his support for pension cuts by putting together a panel on retiree health care benefits. The panel's report suggested cutting the health care subsidy for these retired city workers by 20 percent, but exempting police and firefighters.

It is worth noting that in carrying out its attacks on social programs, the Democratic Party in Illinois has repeatedly gone after the most vulnerable segments of the population—the mentally ill, developmentally disabled, children (through its attacks on public education)—and is now seeking to target retired and elderly workers. Many likely agree with Japanese finance minister Taro Aso, who said retired workers should just "hurry up and die."