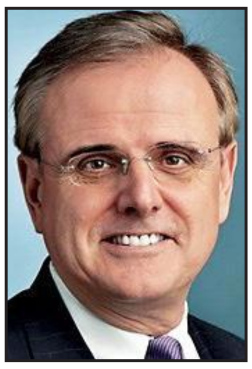
Commentary

Immoral: Pensioners held harmless as taxpayers face ruin

By MARK GLENNON

Shared sacrifice?

If you're among the countless Illinoisans who have been laid off, had your pay cut or closed your business, maybe you've wondered what deal public employees who aren't working got. Nobody in the press has bothered to ask.



Glennon

The answer is among the most nauseating aspect of the crisis: Illinois state and local workers are getting paid in full for not working with full pension accrual.

Illinois and its public unions wasted no time ensuring the checks keep coming regardless of work. On March 15, well before the stay-at-home order and most of the shutdowns came, the state quietly announced this, buried in a press release headlined about closing bars and restaurants: "Select [state] employees will continue to report to work; while the remaining workforce will either work remotely or be asked to remain home on call while receiving pay. All state employees will continue to be paid during this period."

Yes, that was a priority for Illinois' crisis response.

Roberta Lynch, the head of AFSCME Council 31, the biggest public union in Illinois, had the astonishing gall to say this respecting the state's action: "[Gov. JB Pritzker] is modeling the behavior that every Illinois employer should follow."

Has your employer assured you a paycheck even if you are not working, on a job from which you can't be fired?

We have been unable to find any unit of government in Illinois that has cut pay for employees not working.** In other words, the same policy apparently is in place for all state and local workers in Illinois. Countless of them are not working at all – toll road cashiers, park employees, librarians, transit workers and many others where operations are partially or completely closed down.

Many are continuing to work whether from home or otherwise, some under extreme pressure. We salute them. But with the state and most local governments already insolvent before the crisis, full pay for those not working is criminally irresponsible. Slashing pay is essential, as the private sector well knows.

And then there are pensioners. Crisis? What crisis?

Pension checks keep flowing no matter what the size and irrespective of the market forces now savaging pension assets — the stock market's fastest 30 percent loss in history.

Those automatic 3 percent COLAs are now exceptionally absurd because the country is likely facing a period of deflation. Commodity prices have dropped by roughly 30 percent over the past few months and the dollar has soared. Both indicate declining prices. Even before the crisis COLAs accounted for almost 40 percent of pension unfunded liabilities. The 3 percent COLA likely will become a bigger bonanza than ever.

The increased cost of public pensions resulting from losses in their investment portfolio will be pushed entirely to taxpayers. No shared sacrifice whatsoever for pensioners. For now, that is. When pensions run dry, for retirees reliant on reasonable pensions, the situation will become desperate, especially for retirees in smaller, local pensions sponsored by broke municipalities.

State and local governments should have already done what's essential – pay cuts and layoffs. Monthly pension checks should be reduced for larger pensions immediately, protecting money for the sake of those smaller pensioners who will eventually need it. Pension assets must be marshaled. Pension trustees should have seen it as their fiduciary duty long ago to cut larger, current pension payments to protect smaller, future ones

Don't let anybody tell you there is some constitutional protection for breaking contracts in that manner. The leading United States Supreme Court decision on that topic is now clearly on point, pertaining to contract modifications during the Great Depression.

And politicians at many levels of government in both parties are moving to enact moratoriums on mortgage foreclosures and tenant evictions, which also require overriding contracts. There is no constitutional impediment.

We recognize that Gov. Pritzker and much of his top staff must focus primarily on the emergency medical aspects of this crisis, but there is no excuse for not declaring a fiscal emergency as well. He has other financial staff for that. We have a legislature that can act. We have a comptroller and treasurer who should be screaming for action. Deputy Gov. Dan Hynes is a former state comptroller.

We have long said that Illinois is being looted by public unions. It is accelerating during this crisis. Illinois state and local governments have committed Illinois taxpayers essentially to holding harmless public sector workers from any loss. It's immoral.

We will be writing again soon with a list of further emergency fiscal actions Illinois state and local government should have implemented.

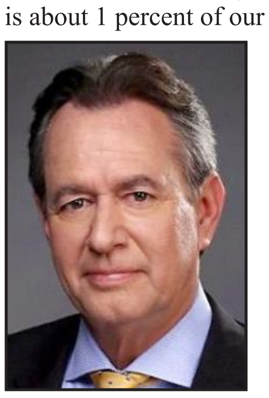
*** Illinois teachers are subject to a different rule as described in the article here. They are being paid in full with full pension accruals, but the extent to which they are expected to attempt to teach online, or are actually doing so, varies.*

Mark Glennon is founder of Wirepoints.

We'll watch the pols to see if they handle the stimulus wisely

By RICHARD SMITH

The United States has approximately $150 trillion of total consolidated private and public assets and $100 trillion total net wealth (assets minus liabilities). The multi-trillion monetary stimulus portion is about 1 percent of our asset base, so for context, it is far from being financially ruinous. We are a *very* wealthy nation with vast financial and intellectual capabilities.



Smith

The Federal Reserve action of lowering interest rates and driving the 10-year treasury yield into negative real yield territory causes concern that it will eventually produce inflation. But maybe not. The Great Recession of 2008 and 2009 contain interesting and important economic history lessons regarding inflation. In response to this severe downturn, interest rates were reduced to near zero and the world was flooded for many years with U.S. dollars, usually causing concern that inflation will ensue, yet inflation remained stubbornly low; as economic theory might have predicted, the classic scenario of too many dollars chasing too few goods did not unfold.

The world was simply too productive, spitting out goods and services at a rate unheard of just a few decades earlier, primarily due to new technologies in the fields of manufacturing, communications, transportation, and information systems. What ensued were too many dollars chasing too many goods, neutralizing the inflationary effect. By logical extension, deflation, to some extent, would have most likely occurred absent the monetary and fiscal stimulus. In short, inflation (or deflation) is the interplay between the money supply and productivity.

One of the best barometers and leading indicators of inflation is a basket of commodity prices which have, in real terms, generally been depressed over the past decade, not government statistics which are lagging indicators and can be improperly defined and collected, hence less reliable.

If this is truly a national emergency, a substantial fiscal stimulus is warranted, *assuming it is applied properly*. And that is a big assumption. Though large chunks of fiscal stimulus are designed to meet short-term needs, like a spike in immediate health care costs associated with the virus, and to soften a variety of financial hardships, there will be a significant set-aside for longer term projects to stimulate the economy in an attempt to avoid a recession.

Even prior to this national emergency, there was much debate regarding infrastructure projects to "rebuild our crumbling infrastructure." The response should always be to build a business case, on a project-by-project basis, for public dissemination. With a conservative set of underlying assumptions, each project should estimate the discounted future cash flows to determine if it makes economic sense and, given that we have limited resources, compared to the net returns of other competing projects. There should always be (but probably are not) a backlog of these "shovel-ready" projects with well thought out and documented financial plans on the shelf at all times for just these kinds of emergencies.

Equally important, a rigorous post audit process of public sector capital projects to measure what was projected in cost outflows and future beneficial inflows to the actual results, are required for accountability and full transparency on public record. Developing better forecasting skills and techniques is essential to enhance future efficiency in the allocation of limited capital. You get what you measure. And if you don't measure it, you won't get it.

Since interest rates are at historic lows, it makes sense to undertake valid infrastructure projects now versus later when both costs and interest rates may be at significantly higher levels. The reality is we probably have been significantly underinvesting in legitimate public infrastructure projects. The time is now when the economy desperately needs the *appropriate* stimulus.

Though often projects make sense and have public support, many people hesitate because it is subject to the wheeling-and-dealing of politicians, who have a dismal record of efficient execution. Coupled with this, are special interest constituencies which risk steering public funds to projects that have the most influential backers, not the highest return. Additionally, public sector projects have a storied history of massive cost overruns—poor planning, cronyism, corruption, and costly union preferences in certain jurisdictions. These factors serve to cast doubt and undermine public support for otherwise valid investment projects that benefit future economic growth and opportunity, as well as providing meaningful employment and additional economic growth in the short run.

Over a decade ago, we undertook infrastructure stimulus measures to confront another crisis, with less than stellar execution and results. Let's get this one right by developing a new set of processes and procedures that will not only make this stimulus package much more effective but will serve us well whenever a massive crisis arises requiring similar measures. If accomplished, it would represent a valuable silver lining to this crisis.

All eyes are on our political class to see if it is up to the task.

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