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Of Foxes and Hens: The Stacked Battle for an Illinois Budget

by Jen Beirl

(English 1102)

Nearly everyone in Illinois, and many people across the country, are familiar with the Illinois budget crisis. The state has not passed a budget in nearly two years and is the only U.S. state to not currently have a budget (McKinney, "Far-Reaching"). Furthermore, Republican Governor Bruce Rauner and Democratic House Speaker Michael Madigan have only met once since last December to discuss establishing a budget for the state (BeMiller). With 321.4 billion dollars in debt and a sinking credit rating, the state faces the daunting task of repairing the damage and moving forward with a sound, balanced budget as the law requires ("Illinois"). It is, however, both necessary and right, for the state, the law, and the many people and companies owed for the services they have provided. The purpose of this essay is twofold: To identify and elucidate the forces at work in preventing the passage of the budget, and to introduce the most viable path to a solution. The introduction of a public banking system provides the best solution to the budget crisis, in that it will weaken heavy private banking lobbies, lower taxes, and increase jobs ("Introduction").

To better understand how the State of Illinois reached this point, it is essential to understand the process that has led to the budget dilemma. Prior to the mid-1990's, Illinois had maintained relatively low revenue and expenses, in comparison with the national average (Walstrum 1). In 1995, Illinois had a gross state product of more than 339 billion dollars and was ripe with opportunity for many different business sectors (Gove 3). The rate of growth for the state had slowed, however, during the thirty-year period from the mid-sixties into the mid-nineties, presenting a problem for elected officials who struggled to maintain lofty standards of living amid decreasing revenue (Gove 18). Additionally, the flight of the well-to-do from Chicago and downstate Illinois has increased the value of suburban areas, but not enough to offset the declining value in the poorer areas they left behind (Gove 20). Suburbanization has also caused other issues that further impact the strain on the Illinois budget, such as increased demand on infrastructure due to longer commute times, and greater scrutiny by the EPA due to rapid expansion into undeveloped land (Gove 25). The greatest impact on the ability to maintain a healthy budget for the state, however, has been the unchecked accumulation of pension liabilities (Walstrum 4).

Economist Thomas Walstrum calculated the average of yearly expenditures and a percentage of total revenues in the state of Illinois for fiscal years 1994-2010. He noted that during this time, Illinois spent over ten percent more than the typical state, and the top two categories for this spending were pension liabilities and employee retirement, making pension-related spending three-fourths of the difference between Illinois and typical state spending (Walstrum 4). To compound the problem, the pension system was not well-managed: employee contributions for many retirees constitute only 8-16 percent of what they receive in retirement benefits ("Pensions 101"). The pension funds were also frequently raided by various officials for other purposes and not repaid, for example the 10 year "pension holiday" enacted by Chicago Public Schools and a complicit General Assembly that siphoned 1.5 billion taxpayer dollars from pensions for Chicago public school teachers ("CPS Pensions"). As a result of these kinds of mismanagement, more than 100 billion dollars is owed to former state employees (Walstrum 1). The agreements that were made may well have been short-sighted, but the commitments must stand. While responsible pension reform is vital, it will take more profound changes to truly alleviate the problems in the Illinois economy.

Republican Governor Bruce Rauner is a vocal supporter of pension reform, specifically the

development of a 401k-based retirement system for state employees going forward (Zorn). It is not surprising that Governor Rauner favors this solution as it suits his preference for the privatization of public services (Geiger). Privatization is one of the key tenets of neoliberalism, an economic model emphasizing competitiveness above all else (Monbiot). It sounds fair enough on paper, until one considers the "competitors" are on decreasingly equal footing. The widening gulf between the haves and have-nots has made truly fair competition all but impossible. Unfortunately, the bind in which previous officials of both parties have placed the State have put the Governor in a prime position to argue for privatization of retirement, education, and healthcare, under the guise of a genuine desire and need to fix the budget (Confessore). It is like a doctor grimly informing a patient that he needs an amputation, without revealing that he has been planning the procedure all along. That is not to say that Republicans are the clear or only villains at work in this situation. The foxes in this tale wear red *and* blue, and the Governor's neoliberal goals can only come to pass with the aid of complicit and incompetent politicians on both sides of the aisle.

The strongest opponents of Rauner's agenda are House Speaker Michael Madigan and Senate President John Cullerton, who are hesitant to move forward with pension reforms that could disrupt contributions from organized labor (Pearson). Democrats have instead opted to focus on tax reform, campaign finance adjustments, and corporate incentives that aim to benefit low-income citizens ("The Illinois Comeback Agenda"). They have proposed a bill in the Illinois Senate that will amend the state constitution to allow for income tax variations based on income level (*Illinois General Assembly-SJRCA0001*). A Senate bill has also been proposed to introduce small donor campaign matching, to mitigate the influence of corporate lobbyists (*Illinois General Assembly-SB1424*). The Keep Illinois Business Act was introduced in the House to prevent businesses that move operations out of state from receiving economic development assistance, encouraging the retention of Illinois jobs (*Illinois General Assembly-SB3538*). Democrats in the General Assembly have also prioritized the expansion of state-subsidized child care, mental health counseling, and drug treatment programs ("The Illinois Comeback Agenda"). As the Democrats push toward the expansion and enrichment of public services, Republicans are aiming to reassign these goals to the private sector. With goals that are so diametrically opposed, neither side is likely to give up any ground.

House Speaker Madigan poses a considerable threat to Governor Rauner's plans to change the way the State of Illinois does business. First elected in 1983, Madigan will soon become the longest-serving house speaker in modern U.S. politics (McKinney, "Special Report"). He has successfully blocked Rauner's proposals to weaken collective bargaining and workers' compensation rights, as well as his attempts at imposing legislative term limits and redrawing district boundaries (McKinney, "Special Report.") Madigan has served with seven governors in his tenure and is not above showing them up in a display of his influence, as he did in 1989's "Operation Cobra," passing a substitute bill in less than six hours that undermined the efforts of then-Governor Thompson's two-year attempt at a tax proposal (McKinney, "Special Report").

Michael Madigan's tenacity is matched only by Bruce Rauner digging in his well-heeled shoes. Former private equity executive and friend to billionaire hedge fund founder Kenneth C. Griffin, Rauner estimated his personal wealth at 500 million dollars in 2015 (Confessore). Some of the same wealthy donors who were backing Rauner during his gubernatorial bid also donated money to Chicago Mayor Rahm Emanuel to aid his struggle with the Chicago Teachers' Union, proof that the neoliberal agenda of the upper crust easily crossed party lines (Confessore). Rauner donated millions of his own money to his campaign as well, triggering a state law that was intended to limit the influence of the wealthy, but in his case backfired because he had contributed so much of his own capital (Confessore). Ultimately, Rauner spent more than twice on his campaign as his rival Pat Quinn, whose campaign was heavily funded by unions (Confessore). By the end of the election, the Griffin family alone had donated over 13 million dollars to Bruce Rauner's campaign, more than the combined sum contributed by Quinn's 244 labor unions (Confessore.) This is neoliberal

"competition" at work, a stacked battle where the richest carry hard cash while the rest of us have only Monopoly money.

It would appear that nothing can really be done to solve such an impasse: a Democratic behemoth backed by massive labor unions vying against a cadre of elitists bent on destroying organized labor. There is, however, one tie that binds them both: the banking lobby. According to the Illinois Campaign for Political Reform, huge banking lobbies such as Illinois Bankpac have contributed generous sums to both parties (Reform). The Republican State Senate Campaign Committee received over 190,000 dollars from the Pac in March, and the Senate Democratic Victory Fund received nearly 100,000 dollars from them last September (Reform). The influence of the banking industry is relevant because Illinois currently has an 11-billion-dollar backlog of unpaid bills, with an additional 700 million dollars in interest costs from this year's budget, which has operated on virtual autopilot during the budget impasse (Garcia). A bipartisan plan being pushed in the Senate calls for the State to borrow 7 billion dollars over seven years to pay down the bills and bring the payment cycle within range of avoiding steep interest penalties (Garcia). Illinois already borrowed money in November by selling off 480 million dollars in bonds at an interest rate of just under 4.25 percent (Garcia). The rate is higher in Illinois because the state credit rating is so much lower than other states (Garcia). The rating agencies that determine state credit ratings are private, for-profit organizations, just like the banks that provide the loans. Such organizations stand to benefit from the struggle and failure of state governments in much the same way as they benefit from the struggles of individuals and small businesses.

Public banking, on the other hand, could alleviate some of the pressure on the state government by issuing badly needed credit at low or no cost ("FAQ"). With these funds, infrastructure and state services could be attended to without the damaging interest rates imposed by private banks, which traditionally represent thirty to fifty percent of the cost of public projects ("FAQ"). Proposed legislation has been introduced in nearly half of the states in the country, including Illinois ("FAQ"). Illinois Representative Mary E. Flowers has introduced the Community Bank of Illinois Act, which calls for the formation of a public state bank that would be funded by tax revenue (*Illinois General Assembly-HB0454*). This bank would be the custodian of securities and would be audited annually by an independent public accounting firm (*Illinois General Assembly-HBO454*). Currently, the state of North Dakota is the only state with a public bank, which it established in 1919 ("FAQ"). North Dakota also has one of the lowest rates of federal aid and sported a budget surplus of over 8 billion dollars in 2014 ("North Dakota"). In 2012, North Dakota also had the lowest unemployment rate in the U.S., as their public banking system freed up ample funds for infrastructure projects that created more jobs (Lemov). States without public banks are limited to depositing their tax revenue in private banks, where the money is often reinvested elsewhere and not fed back into the state economy (Lemov.)

While critics of the proposed system are skeptical that the success North Dakota has realized with state banking could be applied to other states with dissimilar demographics, it is quite difficult to find accounts of opposition to state banking that do not originate in the private banking industry (Cuti). As Professor Barbara Dudley points out in an interview on Oregon Public Broadcasting, there are various kinds of banks in the nation and it is the larger, national banks that trade on Wall Street that stand to lose the most from the implementation of state banking because their economic incentives favor large, short-term profits (Cuti). State and local banks gain from a patient, long-term perspective on lending, because it is beneficial to the community when its members are supported and successful (Cuti). It is a classic case of David vs. Goliath: the share of assets controlled by the five largest banks in the country has jumped from 17 percent in 1970 to a staggering 52 percent in 2010 (Matthews). The national banks are swollen with the wealth of citizens and governments alike and, should they crumble under the strain, they will take these governments down with them. Illinois should heed North Dakota's example and work to establish a State bank capable of steering the

economy toward self-sufficiency and brighter times.

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