



Written by [Bob Adelman](#) on August 8, 2013

First Detroit, Now Chicago?

The unfunded pension liabilities facing Chicago are only the most recent troubles threatening the Windy City, [according to the New York Times](#). The recent credit downgrade of Chicago's general obligation bonds [by Moody's, Standard and Poor's, and Fitch](#) just brought the matter to the surface. Crime, corruption, and a shrinking population also are beginning to make Chicago [look like an out-sized version of Detroit](#).



According to the city, the four pension plans for its police, teachers, firefighters, and office staff are dreadfully underfunded to the tune of some \$19.5 billion. The *Times* says the teachers' pension plan "stands at risk of collapse," while the others are close behind. At present \$500 million of the city's \$3 billion annual budget goes to make partial payments into those funds and to service its debt, but in 2015, under state law, the city [will have to double that contribution to \\$1 billion](#), a third of total revenues. Even if the city is able to pay that amount, the pension plans won't become solvent again until 2040.

Mayor Rahm Emanuel, President Obama's former chief of staff, sees what's coming: "This is kind of the dark cloud coming ever closer." But he says that raising taxes on Chicagoans by enough to solve the problem — an increase in property taxes of 150% from present levels — is simply "unacceptable."

Part of the problem is unwillingness on the part of the mayor and the city's aldermen to recognize the size of the problem. While the city claims that the unfunded liability is approaching \$20 billion, [a study released by Pew Charitable Trusts in January this year](#) calculated that Chicago's real unfunded pension liabilities were closer to \$25 billion, and that number was based on 2009 figures. Moody's, in explaining its three-notch credit downgrade in May, said that Chicago's real liability is [rapidly approaching \\$40 billion](#) and added that the city's budget is "already burdened by high fixed costs, including unrelenting public safety demands and significant debt service payments." The demand by the state that Chicago double its pension contributions starting in 2015 will place "tremendous strain on the city's operating budget." [Moody's added:](#)

Absent significant growth in the city's operating revenues, escalating pension funding requirements will increasingly strain the city's operating budget, as pension outlays compete with other spending priorities including debt service and public safety.

Even more troublesome is that the city has made no contributions whatsoever — none — to the city's retirement health programs for its retirees, adding at least another billion to the shortfall facing the city.

The *Times* was clear on where some of these troubles started:

They are the result of city contributions ... that failed to accumulate nearly enough money, two economic downturns in the 2000s that led to heavy investment losses, and impasse in the State Capitol [the entity that determines Chicago's contributions].



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There are other contributing factors as well, which the *Times* failed to mention: crime and corruption, which are driving citizens out of the city. In 1950, Chicago's population [exceeded 3.6 million](#), but in 2012 it is 2.7 million and declining. According to Aaron Renn, [writing in the City Journal](#), Chicago lost more than 7 percent of its jobs in the last 10 years while the Chicago Loop, the second largest business district in the country, shrank by nearly 20 percent.

So onerous is the issue of crime facing Chicagoans that [Wikipedia has dedicated an entire article just to cover it](#). Even an article [in the Chicago Tribune](#) that tried to make light of Chicago's crime problem wound up agreeing with the general consensus:

We could do better. New York, with three times Chicago's population, saw just 155 homicides in the first six months of 2013 [compared to Chicago's 184].

[A study](#) done by a former Chicago city alderman, Dick Simpson, who served from 1971 to 1979, calls Chicago "the most corrupt city in the nation," and then went on to prove it:

In the Northern District of Illinois, which includes Chicago, there have been a total of 1,531 public corruption convictions [not charges!] since 1978....

Since the 1970s, four of Illinois' seven governors have been convicted [including the latest, [the unlamented Rod Blagojevich](#)].

In addition, dozens of Chicago aldermen and other city officials have been found guilty.

All the pieces and parts of Chicago's history that have brought it to its present sorry state of impending financial disaster are the same pieces and parts that brought down Detroit: a shrinking population base, followed by shrinking revenues, a fierce reluctance to face financial reality, and a willingness to continue to make promises that couldn't be kept, in order to secure reelections and the continuing flow of graft. Detroit may be the first olive out of the bankruptcy bottle but Chicago, though a much bigger olive, will likely soon follow Detroit out of that same bottle if nothing changes.

Photo of Chicago skyline as seen from U.S. Cellular Field

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