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EYE ON THE NEWS

Taxation Without Reformation

Illinois finally gets a budget, without addressing its fiscal dysfunction.

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Illinois' long budget impasse seems to be coming to an anticlimax, with at best a fiscal plan that scarcely addresses the state's massive problems. Frustration runs so high over the failure to come up with a fix to the state's deep woes that several legislators have now simply resigned. Senate Republican leader Christine Radogno announced her retirement by observing, "I've really tried hard. It's time for someone else to take the reins." Meanwhile, Chad Hayes, the assistant minority leader in the Illinois House of Representatives, said that he wouldn't run for reelection because reformist legislators are "increasingly silenced and dwarfed by monied bullies" who "end run around Democracy." The editorial board of the *Chicago Tribune* greeted these moves with a call for more resignations, specifically from the Democratic leader of the House, Speaker Mike Madigan, and Senate President John Cullerton, whose combined 86 years of legislative experience implicate them in the origins of Illinois' long fiscal debacle.

Illinois' budget problems are so enormous that they demand bold and comprehensive solutions to give the state any chance of digging itself out. Illinois went more than two years without a budget because of an impasse between Republican governor Bruce Rauner and the Democrats in control of the state legislature; the crisis started when Rauner took office in early 2015, with the state facing $6 billion in unpaid bills and a $110 billion pension debt. During the previous year, Democrats had allowed a $7 billion annual tax increase (enacted in 2011) to expire, rather than renew it during a statewide election. When they pressed Rauner for new taxes the following year, he demanded a series of reforms in exchange, including cutting the cost of the state's workers' compensation system. Led by Madigan and Cullerton, Democrats wanted tax increases —up to $5 billion worth—to start paying off bills, without much in the way of reforms.

The stalemate over the budget lasted until this week, and in the meantime Illinois' debts kept piling up. The impasse only ended when a number of Republicans, facing the prospect of yet another year without a state budget, voted with Democrats to pass the budget and now look to override Rauner's veto later today, without getting much in return for the tax increases. If the override of Rauner's veto fails, all that's left is no budget and no plan.

The new deal does little to secure the state's future, as the *Chicago Tribune*'s editorial board noted. It castigated the dealmakers for neglecting to fix problems that are crippling the Illinois economy, for not producing a property-tax freeze that Rauner wanted to offset income tax hikes, for failing to demand consolidation among local governments, and for refusing to pass term limits to shake up the dysfunctional, stagnant Illinois political culture. With at least $140 billion in unfunded pension debt today and $14 billion in unpaid bills, the legislature demanded that state agencies trim their spending by 5 percent— not much of a trade-off for higher taxes. "A 32 percent tax increase. For what?" the *Tribune*'s frustrated editors asked.

It's taken a long time for Illinois to reach the point where even dramatic reform would have negligible effect. Illinois officials shortchanged the pension system for years by putting in little or no money; when the state did contribute to pensions, it often used borrowed cash. In 2011, however, outside pressures made it difficult for lawmakers to continue financing pensions with debt, so the state suddenly had to start contributing $5 billion a year of tax money into the system. That cost has grown now to about $8 billion annually, including all the pension borrowing that needs to get paid back. Pensions alone consume about a quarter of all the tax money the state collects—compared with the national average of just 5 percent.

To afford its pension contributions, Illinois simply stopped paying for other things, including many bills for doctors and hospitals in its Medicaid system. A federal judge ruled recently that, after six years of stiffing its creditors, Illinois has to start paying its Medicaid bills. The state suddenly found itself in serious danger of running out of money. But new tax increases won't be enough, because Illinois plans to use some of that money to borrow more money in order to pay off debts that the court is now pressuring the state to fix.

Though it isn't the only state with fiscal woes and underfunded pension obligations, Illinois faces uniquely serious problems. As I've pointed out before, the national economic recovery has been weak, and many states are struggling to balance their books in the face of diminished revenues. But no other state faces the combination of a mountain of unpaid bills, a pension system whose funding levels are already among the lowest anywhere, and judicial rulings that have narrowed the state's options to wiggle out of the mess.

Considering that situation, bold reforms were necessary. What Illinois did, instead, was the least that it could do to avoid getting its bond rating dropped to junk status. You have to wonder how much deeper the crisis has to become to get the state's leaders to act decisively, and whether they'll miscalculate and run out of time before they have that chance.

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