

Can Quinn Erase Illinois' Deficit?

Written by Rich Miller
Sunday, 10 April 2011 05:59

Caterpillar CEO Doug Oberhelman seemed to be under the impression after his meeting last week with Governor Pat Quinn that the state's income-tax hike would actually expire in four years.

"The tax increase is temporary," Oberhelman told reporters, who wanted to know how he really felt about the recent tax hike. There'd been much media speculation that the Caterpillar CEO was so unhappy about the tax increase that he might move his company elsewhere. Oberhelman added that revenue growth will be necessary to fill the gap, and "it's going to take some spending cuts," which, he said, he was confident that Quinn could pull off.

After Oberhelman answered the question, Quinn told reporters that the "income tax is a four-year situation," and said he wanted to "erase the deficit" during that time.

Technically and legally, the tax hike is temporary. Two income-tax hikes have been allowed to expire in Illinois history, so it's possible that this one will as well.

But the governor used phantom revenues in his most recent budget plan and proposed an increase in state spending, not a decrease.

The Senate Republicans have laid out the problem pretty clearly. And it's quite grim.

The Senate Republicans project the state deficit will be \$22.7 billion in five years. I've had a problem with those numbers because of some of the assumptions they used. So I asked them to help me game some additional projections using what I considered to be more realistic assumptions, and they obliged.

First, toss out the governor's \$8.7-billion borrowing plan to pay past-due bills (which doesn't look like it can pass this year). Then use House Speaker Michael Madigan's (relatively low) revenue and spending projections for the coming fiscal year. Then increase state spending by 2 percent a year and project 2-percent annual revenue growth, and let's see what happens.

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What you'd wind up with is a \$1.5-billion deficit during the last year that the tax hike is in effect. But when that tax increase goes away, Illinois will then be left with a \$5.7-billion deficit. That's about \$1.3 billion higher than the deficit projected for the end of the state's current fiscal year. Not good at all. Terrible, in fact.

Okay, that didn't work, so let's try again. How about increasing spending by just 1.5 percent a year? You'd wind up with a \$524-million deficit during the last year of the allegedly temporary tax hike, but there'd be a \$4-billion deficit the very next year, after the tax hike had expired. Again, that's about where we are right now. Any claims of budgetary restructuring would be shown to be laughably false.

Last try. Let's plug in zero spending growth for four years. Illinois would have a \$2.5-billion surplus the last year of the tax hike. Hooray! A year later, the surplus would still be \$1.1 billion, but the state would also have a structural operating deficit of \$1.4 billion, and that deficit would continue to rise from then on out. Bummer.

Also, zero growth might not sound all that difficult to do until you realize that pension payments, Medicaid, and state-employee and retiree health-care costs are all rising exponentially every year. All that spending would have to be somehow reined in, or other state programs – such as education, human services, and pretty much everything else – would have to be viciously slashed year after year. In five years, things would be very bad indeed.

And considering the cold, hard fact that state legislators as a general rule hate to cut budgets, how can they be expected to keep a tight lid on everything year after year after year after year? They won't do it. Simple as that.

The bottom line here is that if the governor is serious about putting Illinois on a solid financial footing, he needs to find a lot more revenues and/or make lots more cuts.

Caterpillar's Oberhelman went out of his way to heap praise on the governor last week. And now Quinn needs to do whatever he can to keep his word. He obviously doesn't enjoy cutting the budget, but it has to be done if he hopes to wipe out that deficit by the end of his term.

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