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Paying for the sins of your fathers

By Jim Nowlan

Something had to be done.

The State of Illinois was deadbeat, failing to pay its bills, forcing social service agencies to borrow to meet payrolls. The state had borrowed so much on such shaky finances that the investment bond rating houses were threatening to blacklist any further efforts by the state to sell debt. The state's pension systems had become the worst funded in the nation, threatening future insolvency.

The state staved off the inevitable as long as it could. This past year, for example, Illinois sold future tobacco company settlement payments to bring in a one-time, billion-dollar-plus infusion for this year's budget. Ditto for the rights to allow a private company to run the state lottery. And the state borrowed nearly $4 billion more to make its annual pension fund payments.

The jig was up, and Speaker of the Illinois House Michael Madigan knew it. He and Gov. Pat Quinn put the arm on his Democratic House members to pass an income tax increase. One "Yes" vote has already received a high-paying state job, which will increase her pension significantly.

But the increase, big as it was at 67 percent over the present income tax rate, is less than it seems. The income tax is but one of five major sources of revenue for state and local governments, and not the biggest: the property tax (the largest source by far, for local governments), sales tax, fees for services, the federal government and the income tax. Indeed, the $6 billion which the increase will bring in next year represents about 10 percent of all state spending. Still, the increase is big, and will cost about $500 per person in Illinois annually.

Using 2006 figures, the increase will move Illinois from 27th among the states in total per person state and local government revenue to about 20th, at just about the national average of $9,000, and right behind North Dakota, Vermont and Louisiana.

And the increase will go almost dollar for dollar for pension payments ($6.3 billion next year) that should have been paid over the past three decades by your father's generation (if you are a young adult reader).

The tax increase will not allow for increased spending, much as state legislators salivate at the thought of doing things for their voters. Indeed, if we keep spending at present rates, we will be once again back in deficit spending a year from now, even with the tax increase!

But where do we cut? Ex-governor Blagojevich increased spending on health care for children and cut all the other agencies, reducing state employment from 88,000 to 70,000. Our public universities received less this past year (they haven't even been paid that) than in 2002.

The three really big programs are hard to cut. The federal government says basically we cannot cut spending on the huge Medicaid health care program, which the feds support. The pension payments are required in law. And public school advocates want more money, not less, and the public seems to agree.

So, dramatic changes will have to be made in the other state programs in order to bring spending into line with future revenues. I'm talking such things as closing state parks, down-sizing our public universities big-time, and reducing the pension benefits of current state employees (which might violate the state constitution).

State and local governments are facing major and painful restructuring. Few will like the final product.