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Dueling visions for Illinois' future

By Jim Nowlan

I decided "to get outta Dodge" for a couple of weeks and set down in Austin.

Texas has been booming. The state's population has grown by more than 20 percent a decade since it became a state in the 1840s and is on course to do so this decade as well.

State capital Austin is really hot. On average, 100 new people settle in the city—every day!

Apple is building a new campus here that will employ 4,000, I am told. Google, Oracle, Samsung, they are all here in this high-tech boom town.

Texas would be characterized as a low tax/low service state, ranking 46th among the states in state and local tax burden, according to the Tax Foundation, a business-oriented group in D.C.

Although its business taxes are relatively high, according to the Tax Foundation, Texas has no income tax. And any lawmaker who ever whispered the words would be tarred, feathered and run out of the state, or assassinated.

[DELETE THIS PARAGRAPH. JN. An entrepreneur who organizes his or her business so as to pass income legally through the business onto the owners, and most do, would pay no taxes on that income.]

On the other hand, Texas spent almost $4,000 less per pupil in 2013 on its school kids than did Illinois: Texas, $8,299; national average, $10,700; Illinois, $12,288. (Source: U.S. Bureau of the Census, Education Division.)

Back to Illinois.

Two think tanks in our state are highly visible to state policymakers. Both are Chicago-based groups, each about 15 years old, and have almost diametrically opposed visions of how Illinois should be operated and funded.

The conservative Illinois Policy Institute (IPI) and its lobbying arm, Illinois Policy Action, advocates for lower taxes and less dependence on government. With a staff of about 50 and budget of $6.4 million in 2014, IPI appears to receive much of its funding from the hedge fund, venture capital and investment banking worlds, including from Gov. Bruce Rauner in years past.

IPI finds the Texas model to its liking.

The group rails against the present pension burden under which Illinois labors. IPI calls for putting state employees on self-directed 401-K plans, as opposed to the present defined-benefit retirement plans.

The IPI also seeks legislation to allow cities to declare bankruptcy, so they might get out from under often punishing unfunded police and fire pension liabilities.

According to my friend Ted Dabroski, a very smart, one-time bank executive and now top staffer at IPI, "Illinois will only begin to grow again when there is an end to cronyism, over-borrowing and over-spending."

The Center for Tax and Budget Accountability (CTBA) is at the other end of the ideological spectrum. Headed by former intellectual property attorney Ralph Martire, another old friend of mine, CTBA is largely funded by labor unions and foundations, and has a staff of nine.

CTBA favors something along the lines of what I call the Minnesota model: high taxes/high services. Minnesota takes pride in the social, educational and quality-of-life services the state provides citizens.

Minnesota has a graduated personal income tax rate that reaches 9.85 percent for single filers earning more than $72,000. Nevertheless, the state has been growing both its economy and population, though more slowly than Texas.

Created to put a few more dollars into the hands of the working poor, CTBA has been an effective advocate for the Illinois Earned Income Tax Credit, which does just that.

So should Illinois go for the Texas model (low taxes/low services), or that of Minnesota (high taxes/high services)?

In my assessment, Illinois can adopt neither model, primarily because of the $110 billion (or more) state employee unfunded pension liability that now costs us $8 billion a year, or almost one-quarter of our state's general funds budget.

[In contrast, we look longingly at the debt-free state pension system of Wisconsin. Our neighbor's system is the same size as that of our larger state because it includes local government employees. In contrast to the $8 billion Illinois spends, Wisconsin requires little more than $1 billion a year to keep its system fully funded.]

So we have put our state in a box, one of our own making. That is, we cannot emulate low-tax Texas, because we could not then fund both basic services and our pension debt.

Nor can we be a high tax/high service like Minnesota, because even with high taxes we could not provide equally high levels of services, again because of our pension spending obligations.

Illinois will probably have to devise a middle-way model, one that is relatively high tax, yet at best would provide a moderate level of services. Can such a model ever help re-ignite our economy and stanch population outflow? I will explore that question in future columns. Bet you can’t wait.