Illinois Democrats foist budget crisis onto working class

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The Democratic-controlled Illinois General Assembly passed a tax bill early January 12 that significantly raises the individual income tax rate. A highly regressive flat tax that will weigh most heavily on the working class, the rate is to be raised 67 percent, from 3 percent to 5 percent.

Democratic Governor Pat Quinn signed the bill into law late Thursday. With this measure the Illinois state government continues an assault on the working class that will be picked up with more vigor in the coming months.

The inherent unfairness of the flat-rate income tax was acknowledged last year during an earlier attempt to raise taxes in the course of state budget negotiations. At the time, Quinn proposed raising the individual exemption amount as a token measure to alleviate the very real negative effect such a tax increase would have on the masses of workers living paycheck to paycheck. During the just concluded lame-duck session, Quinn did not raise the issue, an indication of its merely rhetorical purpose. Democratic legislators do not appear to have considered such a plan either, even though some had made token appeals last May for a constitutional amendment allowing different rates based on income.

The state Democrats have billed the tax increase as "temporary," with a drop back down to 3.75 percent in 2015 and then to 3.25 percent in 2025. Similarly, the state corporate tax rate, which is increased by 46 percent, from 4.8 percent to 7 percent, will drop down to 5.25 percent and then to the original 4.8 percent in the same years.

In all likelihood, the increase to the corporate tax rate will be strenuously opposed by the business elite and then lowered by their associates in the Assembly, while the income tax increase is made permanent. While the largest corporations already have vast armies of lawyers fixed on reducing their tax payments to negligible sums or even nothing at all, working class families enjoy no such luxury.

In addition to the tax increases, the measure passed by the Assembly also imposes a spending cap which would limit the state's budget to a growth of 2 percent a year for four years. The penalty imposed for exceeding the limit would be a drop in the tax rates to their original levels, which would ensure an immediate return to financial crisis.

Between increased demand for state services stemming from the ongoing economic downturn and the resultant high levels of unemployment, as well as the continued increase in debt service payments, the 2 percent growth cap will result in real and painful cuts in services, which will severely affect wide layers of people.

The financial situation faced by Illinois is among the most dire in the country. A recent report on the budget by the Illinois Institute of Government and Public Affairs (IGPA) at the University of Illinois stated that it would be "hard to overstate the depth of the fiscal hole the state is in." The current budget deficit is $13 billion, and is expected to rise to $15 billion by the time negotiations begin in the spring for fiscal year 2012. The IGPA report notes that in a December survey of state budget gaps, it was found that the deficit in Illinois "accounted for about half the total of state deficits nationally and was nearly twice as large as the deficit in California, the second largest."

Indeed, Illinois's budget crisis is so stark that the state's ongoing access to credit is in question. Already, according to *Crain's Chicago Business*, the state's credit rating is "among the lowest of the states." The cost of credit default swaps on Illinois' bonds are the highest in the country, indicating that many investors believe the state will eventually default on its bond payments.

To date, the state government's strategy for dealing with the unfunded hole in its budget has been to delay payments to a wide variety of service providers, including schools and mental health providers. Though not stated as such, this is a policy of *de facto* budget cuts. It has led to the closure of service providers, such as pharmacies and centers for at-risk youth, and has resulted in the widely reported layoffs of workers, including teachers, as well as other hardships. A survey conducted by Illinois Partners for Human Service, an association of service providers, found that 48.6 percent of respondents laid off staff and 28 percent had closed programs.

One example of the fruits of this policy is that several central Illinois school systems are facing collapse. Many did not receive the full amount of funding allotted to them from the state last year, and some did not receive any at all. Deficits run into the tens of millions.

One superintendent speaking at a meeting of regional school leaders told the *Rockford Register Star*: “The future of public education is at stake ... we’re at risk of failing as a system without proper financing.” The school leaders warned that personnel cuts will take place, and will affect offerings. Rockford Superintendent Lavonne Sheffield said, “We’re going to see structural changes in Rockford.” It is worth noting that Rockford, a former manufacturing hub, has struggled under a double-digit unemployment rate since December 2008. Currently the city faces a 13.7 percent official jobless rate.

The *Chicago Tribune* reported one state House member estimated it would take eight years to fully pay providers, after the House and Senate rejected plans to borrow $8.75 billion amidst negotiations over the tax increase. In late December, Quinn floated a proposal to borrow $15 billion in order to catch up with payment obligations. The banks and credit markets immediately pulled back, prompting Quinn to drop the plan. This allowed the negotiations in the lame-duck session to be centered on the tax increases.

The timing of the vote was itself a piece of cynical political maneuvering. The passage of the current year’s incompletely funded budget was a deliberate decision, calculated to give Democrats a better chance of retaining seats in the November election. It was clear that legislators would be called back for a lame-duck session in which unpopular decisions would be made, and the Democrats ran right-wing campaigns which assiduously avoided mention of the budget cuts and tax increases they would be implementing. During the campaign, Quinn himself promised to veto any tax increase over 1 percent that came his way.

As it turned out, the Assembly ended up in session late Tuesday night and into Wednesday morning, as both chambers raced to pass the bill before 10 a.m., when the new Assembly would be sworn in and Democrats would lose 6 seats in the House and 2 in the Senate. The bill passed narrowly in both chambers, with the votes 60-57 and 30-29, respectively. Given the rightward shift in the Democratic Party, there was no guarantee that some of the new Democratic members would vote for the tax increase, preferring instead to balance the budget solely through cuts, as favored by the Republican Party. New Republican House member Sue Rezin acknowledged this point saying, “I think you’re going to see more of a push back, especially from many of the new legislators of the Democratic Party. That’s why they’re trying to push this through today.”

The budget crisis is nowhere near its end. According to *Crain’s*, the tax increase will raise approximately $6.8 billion per year. This leaves an estimated $5.1 billion deficit for next year, roughly 15 percent of the budget. Eliminating this gap through reductions in spending would entail massive attacks on the living standard of the working class, as education, health care, and other essential services are dismantled. This is to say nothing about the $13-$15 billion in spending obligations carried over from the last several years. As the IGPA report states: “Bringing Illinois to fiscal solvency will require state government to implement multiple and massive policy changes. If nothing is done soon, the state of Illinois faces a very bleak future.” The “multiple and massive policy changes” to which the IGPA report refers are tax increases, budget cuts, and spending freezes.

Also unaddressed is the $54.3 billion in unfunded pension obligations the state has accrued. According to a report released by the Pew Center on the States, Illinois’ pension funding is in the worst shape, with only 54 percent of pension liabilities funded. The late-night legislative session included a plan to borrow an additional $4 billion to meet a looming pension payment, but it is clear that the sheer magnitude of the unfunded pensions will require the stripping of pensions and benefits previously promised to generations of workers. Already, newly hired firefighters will be subject to a second-class pension resulting from another law passed by the lame-duck Assembly.