

Tax hike will bring spending cuts

While many people think the recent state income tax hike will allow Democrats to avoid making meaningful spending cuts, the reality is that Democratic leaders have done much to ensure spending cuts will occur in the next decade.

By raising taxes and requiring local governments to contribute to pensions, the people of Illinois will get a more realistic sense of what government costs in this state. The irony is that raising taxes and requiring funding of pensions will move the public to accept — if not demand — less government and more pension reform.

Some Republicans have argued that the way to limit government is to “starve the beast.” Cutting revenues, they say, will require government officials to cut spending. That, however, is not what happens. According to William Niskanen, an architect of Ronald Reagan’s economic policies and former president of the conservative Cato Institute, running large deficits undermines the political incentive to cut spending for two reasons.

One is that deficit-financed government understates the price of government, leading people to demand more government than they are paying for.

The other reason is that running large deficits removes the political credit to be had from trying to balance a budget. For instance, if the government runs a \$250 billion deficit, there may be political credit to be had from balancing that budget, but if the deficit runs at a trillion, the pain of spending cuts exceeds the benefits in the short term.

Cutting taxes and continuing to spend has proved politically popular for Republican administrations. But cutting spending along with taxes would not have been nearly as popular, which is why tax cutters rarely approach spending cuts with anywhere near the zeal they do when pursuing tax cuts.

House Republicans supported renewal of tax cuts in December (amounting to \$3.7 trillion over 10 years) but are hedging on the pledge to cut \$100 billion this year.

Government spending grows the fastest when people can enjoy services without paying the real costs of those services. The federal government budget grew dramatically under Reagan and George W. Bush, when elected officials opted to lower taxes and borrow to make up the difference. The same thing happened in Illinois where state, county and city budgets grew considerably by borrowing in various forms (floating bonds, deferring payments to pensions or delaying payment to vendors and service providers). Only when the costs of government are apparent will public sentiment demand a balanced budget.

“Feeding the beast” is the only politically tolerable way to get meaningful spending cuts. Federal government spending slowed in the 1990s — but only after income taxes were increased in 1990 and 1993. Cook County appears to be on its way to cutting spending, but only after public demand for cuts surged after Todd Stroger’s sales tax increase.

Now that the state income taxes have been raised in Illinois, you can expect public pressure for spending cuts and pension reform.

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Recommended reading

Perhaps if Gov. Quinn would read John Grisham’s latest novel, *The Confession*, and his only nonfiction book, *An Innocent Man*, along with Thomas P. Sullivan’s Jan. 30 letter to the editor, he would sign the bill that would abolish the death penalty that is sitting on his desk.

Wake up, governor!

Irwin Pomerantz,

Northbrook