



Post-Obamanomics: States Are Going Broke

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Governors and state legislators say they are running out of money again, and many are demanding tax hikes to close budget gaps.

More than half the states are facing big deficits this year, and they are mostly blue states, including California, Connecticut, Delaware, Illinois, New York and Oregon. Wait. These are states with high taxes and some of the deepest pools of red ink. There's got to be a message here.

But some red states have money woes, too. The biggest fight is in Kansas, where the Republican-dominated Legislature recently passed a massive income tax hike that would raise taxes on every small business in the state and every wage earner with income above \$15,000. Fortunately, Gov. Sam Brownback vetoed the GOP tax hike, but it will be back in some form.

So what is the source of the budget crises from coast to coast? First, on the revenue side, tax receipts are down because states are front-line victims of the slow-growth era of the Obama years. When the U.S. economy sputters at only 1.6 percent as it did in 2016, state and local tax revenues barely trickle in. So much for the liberal spin that President Obama left behind a healthy economy.

Revenues have plummeted in oil-producing states such as Alaska, Kansas, Oklahoma, North Dakota and Wyoming. Liberals are pushing big tax increases in each of those states, which not so long ago gorged on new spending during the years of high prices. North Dakota had one year in which the budget rose more than 50 percent.

The best thing Washington could do to help states would be to pass the Trump tax cuts so we get faster economic growth. Nothing heals state budgets more quickly than a dose of prosperity.

The major reason states are in financial trouble is the eight-year state spending binge that almost no one is reporting on. Chris Edwards, a fiscal analyst at the Cato Institute, has run the numbers. He reports that "state general fund spending has soared 32 percent since 2010." The National Association of State Budget Officers predicts a 4.3 percent hike in fiscal 2017 budgets – twice the inflation rate.

One reason state budgets have spun out of control is Obamacare. Some 20 million Americans have been added to state Medicaid rolls. For now, the feds pay most of the costs. But if patients were still to be on Medicaid in several years, the costs would be shifted to the states. All the more reason to repeal Obamacare as rapidly as possible before the Medicaid caseloads grow by millions more.

It's worth noting that many of the blue states that signed up for the Obamacare Medicaid expansions now face the biggest deficits.

Would tax hikes solve the problem? The answer can be found in Connecticut and Illinois. These two states passed multi-billion-dollar income tax hikes on "the rich." Both have seen their economies get crushed by the out-migration of tax filers to avoid the tax hikes. Today their deficits are still gigantic. Connecticut faces a deficit of nearly a half-billion dollars, and Democratic Gov. Dannel Malloy is calling for his third mega tax increase to stop the red ink. Illinois has at least \$6 billion in unpaid bills after its biggest tax increase in history.

Spending discipline and pro-growth tax reforms are the best formula for reviving state budgets. If Republicans, who control 69 of the 99 state legislative chambers, think they can tax their way back to prosperity, don't be surprised if they're back in the minority after 2018.