



'Fiscal sword of Damocles' hangs over Illinois

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The Cato Institute economist who recently said Illinois has entered a death spiral admitted on a recent Chicago-based radio show that his statement is hyperbole -- but not by much.

"Clearly, the internal migration in the United States, and looking at the fact that Illinois is losing people with relatively high incomes and to the extent that the state is attracting anybody, they're of lower income," Daniel Mitchell, economist and senior fellow at the Cato Institute, said during a recent edition of "Illinois Rising." "In other words, they're more likely to be riding in the wagon rather than pulling the wagon. That by itself is a very important statistic."

That aside, Mitchell said there are other trends he's seeing that -- were he a taxpayer -- would scare him to death.

"If you look at all 50 states and you look at measures of unfunded liability -- in other words, the promises that have been made by government for which there's no funding source, especially when you're looking at, say, unfunded liabilities for state and local government bureaucrat pensions -- Illinois is one of the worst states in the nation," he said. "So you already have productive, contributing taxpayers leaving the state because they feel it's unfriendly and then you have this sort of, I don't know, I guess we'll call it a fiscal sword of Damocles hanging over the neck of the state's economy. Yeah, the death spiral, that's a bit of hyperbole but in the case of Illinois, boy those long-run numbers really look scary."

Mitchell's recent blog, "Illinois Enters the Death Spiral," presents a chilling financial trajectory for the state, following on news that Illinois lost almost 38,000 residents in 2016, more than any other state in the nation.

"Growth will be weaker with bad policy, of course, but if a nation already is relatively rich, then perhaps voters don't really care," Mitchell said in his blog. "But there's a catch. If you add demographic change to the equation, then bad policy can be a recipe for crisis rather than slow growth. This is one of the reasons why I'm worried about the long-run outlook for Europe, with particular concern about Eastern Europe (by the way, we also have to worry in America). Simply stated, you have to pay attention to the ratio of producers to consumers."

During his "Illinois Rising" appearance, Mitchell gave an assessment of Illinois' financial situation from the outside looking in.

"Since I'm based in Washington, I'm not going to pretend to have my finger on the pulse of the politics in Illinois," he said. "But when you have a state legislature that is overwhelmingly dominated by people who not only created the problem and not only do they not want to fix the problem but, in all likelihood, they would make it worse if they could. That's one of the reasons why I think you're seeing the migration of high net worth, productive taxpayers out of the state. It's a very grim situation."

The solutions are obvious but may be unworkable in Illinois' present political climate, according to Mitchell.

"At the very least, you need to have any new state and local government employees in a defined contribution," he said. "In other words, a 401(k) or IRA-type pension system, not a system based on unfunded liabilities. To the extent that it's legally possible, there should be some readjustment of some of the existing promises that have been made to current government workers. But if you have state lawmakers that simply refuse to deal with the problem, they wait until there's a crisis at which point it's too late, then you're sort of let free. I'm afraid I don't have any good answers."