



Written by [Bob Adelman](#) on June 22, 2017

Illinois Governor Gives Tax Increases to Placate Democrats Before Deadline

Illinois Governor Bruce Rauner, speaking briefly to a closed session at the state house on Tuesday night, [urged “unity”](#) in solving the state’s staggering and rapidly accelerating financial problems. Those present reported afterward that the governor declared, “Failure to act [on his budget proposal] is not an option. Failure to act may cause permanent damage to our state that will take years to overcome.”



The state has already suffered massive damage. The quality of the state’s bonded indebtedness has been downgraded 21 times since 2009, and now sits just one notch above junk. With the last downgrade S&P Global analyst Gabriel Petek threatened that his agency would reduce the state’s credit rating to junk status unless a budget was passed by the end of June: “If lawmakers fail to reach agreement on a budget ... it’s likely we will again lower our ratings [to junk].”

On June 9, Moody’s Investors Service downgraded the credit ratings of seven of the state’s universities, with five of them now rated as junk. Last week contractors working on the state’s roads received notice to stop work on all projects because “appropriate funding is not available after June 30.”

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The protagonists in the political brinkmanship are House Speaker Michael Madigan, a Democrat with close ties to the state’s unions, and Governor Bruce Rauner, the first Republican in years to occupy the statehouse. Funding his campaign with personal money gained as a successful hedge fund manager, and aided by another hedge fund manager, Ken Griffin, Rauner made clear his intentions in 2014. Griffin spoke for Rauner when he said that Illinois needed to “cut spending and overhaul the state’s pension system, impose term limits and weaken public employee unions.”

Rauner thinks local governments should be allowed to pass right-to-work laws that would weaken union influence. He expanded by holding that the state should ban union political contributions, saying “government unions should not be allowed to influence the public officials they are lobbying, and sitting across the bargaining table from, through campaign donations and expenditures.”

Rauner wanted to reduce the state’s minimum wage, claiming in January 2014 at the start of his campaign for governor that “we could have a lower minimum wage or no minimum wage as part of increasing Illinois’ competitiveness.”

Rauner also called for the state’s personal income tax rate to be reduced from 5 percent to 3.75 percent while reducing the state’s corporate income tax rate from 7 percent to 5.25 percent. He called for a cap on local property tax rates and for term limits (pledging himself to serving just eight years if reelected).

On the other hand, Michael Madigan is a career politician, serving every year but two since 1983 and earning for himself the sobriquet as “the Velvet Hammer — a.k.a. the Real Governor of Illinois” by *Chicago Magazine* in 2014. Madigan’s position on nearly every issue is the opposite of Rauner’s, and he



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has successfully blocked Rauner at almost every turn.

That political stalemate has caused the state's deficits to explode. When Rauner took office in January 2015, the state had a backlog of unpaid bills of just \$6 billion and was paying them within 30 days. The total current backlog is now \$15.1 billion and climbing, forcing creditors to wait up to six months and more to get paid for services already rendered.

No doubt motivated by the rating agencies' deadline, and his desire not to be cast in his reelection campaign as Governor Junk, Rauner softened some of his policy positions and demands so as to placate Madigan and his Democrat supporters. In order to reduce the state's backlog of unpaid bills by an estimated \$4 billion, Rauner agreed to increase the state income tax, expand the state sales tax, and implement a cable and satellite TV tax (about the only thing left not already being taxed).

The *Wall Street Journal* called Rauner's offer a capitulation, pointing out that his "proposed deal includes almost none of the reforms Illinois desperately needs to compete with neighboring states and repair its fiscals. It includes nothing on right-to-work and little [on] workers' compensation reform. It doesn't give local governments the collective-bargaining reforms they need and it fails to solve the state's \$130 billion or so in unfunded pension liabilities."

Even this isn't likely to be enough to obtain passage. Especially now that Rauner, the primary financial backer of the state's Republican Party, is running attack ads excoriating Democrats, especially Madigan himself, for their intransigence. As Senate President John Cullerton, a Democrat representing Chicago, so eloquently put it:

When you ... tell somebody, "Oh, I can't wait to work with you on the budget" and then spend \$1 million saying you're a crook ... it's not helpful.

It's likely that there will be no unity in Illinois. The June 30 deadline will no doubt pass without a budget agreement (extending the record to four years for the state to operate without one). The state's bonds will be downgraded to junk, which will trigger various acceleration clauses for demands for immediate payment; bond mutual funds and hedge fund managers will try to offload their bond holdings (at significant discounts); other financing avenues for the state will dry up; and the pile of unpaid bills will continue to grow. If Rauner loses his reelection bid next year and is replaced with a Democrat more in line with Madigan, then a budget including even greater increases in all manner of taxes on the state's citizenry will likely pass.

On the other hand, if Rauner wins reelection, he will once again find himself facing his foe, Michael Madigan. This raises the obvious question: Why would anyone want a job like that? For all intents and purposes, Illinois is past the point of no return, and Rauner would simply become the caretaker of the cemetery plot.

An Ivy League graduate and former investment advisor, Bob is a regular contributor to The New American magazine and blogs frequently at LightFromTheRight.com, primarily on economics and politics. He can be reached at badelman@thenewamerican.com.

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