



[PRINT WINDOW](#) [CLOSE WINDOW](#)

REVIEW & OUTLOOK

Illinois Tax Implosion

The political limits of "universal" health care.

Monday, May 14, 2007 12:01 a.m.

"Universal" government health care has once again returned as a political cause, with many Democrats believing it's the key to White House victory in 2008. They might want to study last week's news from Illinois, where Democratic Governor Rod Blagojevich's tax increase to finance health care became the political rout of the year.

The Democratic House in Springfield killed the proposal, 107-0, after Mr. Blagojevich came out against his own idea when it became clear he was going to be humiliated. Only a month earlier he had said he was prepared to wage "the fight of the century" in defense of his plan to impose a \$7.6 billion "gross receipts tax" on Illinois businesses.

Easily re-elected in November, the Governor used every trick in the "progressive" political playbook to sell his proposal. Instead of a general tax increase, he claimed it would be "targeted" for universal health care and education. Instead of raising individual taxes, he aimed at business and even built in an exemption for smaller firms. "These corporate guys, they can't avoid this tax," declared the Governor, sounding one of the "populist" themes that liberal columnists are now recommending for national Democrats.

Mr. Blagojevich also pitched his plan as a moral imperative, unveiling it while standing in the Fourth Presbyterian Church in Chicago and saying it was necessary to force businesses to pay their "fair" share of the tax burden. He wanted to force most employers to offer health insurance or pay a 3% payroll tax. Liberal special interest groups--including the state AFL-CIO and the Illinois Education Association--initially supported him.

But a funny thing happened on this road to Canadian health care. The state's more rational Democrats revolted, arguing it would drive businesses out of Illinois. Chicago Mayor Richard Daley was an early opponent, and Democratic Lieutenant Governor Patrick Quinn was cool to it. House Speaker Michael Madigan very publicly withheld his support and last week came out against the tax hike.

As tax increases go, this was one of the worst. A "gross receipts tax" is popular with politicians because it applies to every dollar of company revenue, not merely on profits, or on final sales the way a retail sales tax does. But this means the tax tends to hit hardest those small and medium-sized businesses that have healthy sales volumes but narrow profit margins. The tax is a huge revenue-raiser but can also be a job killer.

Mr. Blagojevich tried to soften this impact by creating an exemption for business with annual

revenues of less than \$5 million. But even with that exemption, retailers would feel the squeeze from the higher cost of goods. And because the tax applies to all business transactions, it creates what economists call a "pyramiding" effect that has a damaging overall economic impact.

The Tax Foundation estimated that Mr. Blagojevich's proposal would have been the largest state tax hike in the last decade, as a share of state general fund revenue--at 27% nearly double the next closest, which was Nevada's 14% increase in 2004. In per capita terms, the tax hike would average about \$550 per Illinois resident.

All of this piled on top of the \$1.5 billion in new taxes and fees that the Governor imposed in his first term. State revenue has been rising at a respectable 5% annual pace, but spending is rising faster. Jonathan Williams of the Tax Foundation says the Governor's proposed budget this year calls for a 13.2% spending increase, which comes on top of a near double digit increase a year ago. The cumulative impact of this rising tax and spending burden has been to drive businesses out of the state.



"To describe every major CEO in Illinois as fat cats is a mistake," said Chicago Mayor Daley. "They don't have to be here. They can go to Wisconsin. They can go to Indiana. They can go to India. They can go to China. So if you want to beat up businesses, go beat 'em up, and when they leave, just wave to 'em and they're going to wave back to you." Even Jesse Jackson disowned the Governor's plan, noting that "We all want health care. But business closer is not good health."

One lesson here is that it is far easier to talk about "progressive" political causes than to pay for them without doing larger economic harm. In today's global economy, the margin for policy mistakes is smaller, even for individual states. Mr. Daley may appreciate this better than Mr. Blagojevich because he knows the consequences of bad policy will harm Chicago long after the Governor retires to private equity, or some other "fat cat" job.

As for national Democrats, Presidential candidate John Edwards has already proposed a huge tax increase to pay for national health care. At least he's honest about what such promises require, but we doubt it will help his Presidential prospects. Illinois Senator Barack Obama has been silent on his Governor's tax implosion, but someone should get him on the record. And Hillary Clinton, well, we can't wait to see how "universal" her promises will be.

Copyright © 2007 Dow Jones & Company, Inc. All Rights Reserved.

[PRINT WINDOW](#) [CLOSE WINDOW](#)