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The Greece Next Door

Run up spending and debt, raise taxes in the naming of balancing the budget, but then watch as deficits rise and your credit-rating falls anyway. That's been the sad pattern in Europe, and now it's hitting that mecca of tax-and-spend government known as Illinois.

Though too few noticed, this month Moody's downgraded Illinois state debt to A2 from A1, the lowest among the 50 states. That's worse even than California. The state's cost of borrowing for \$800 million of new 10-year general obligation bonds rose to 3.1%—which is 110 basis points higher than the 2% on top-rated 10-year bonds of more financially secure states.

This wasn't supposed to happen. Only a year ago, Governor Pat Quinn and his fellow Democrats raised individual income taxes by 67% and the corporate tax rate by 46%. They did it to raise \$7 billion in revenue, as the Governor put it, to "get Illinois back on fiscal sound footing" and improve the state's credit rating.

So much for that. In its downgrade statement, Moody's panned Illinois lawmakers for "a legislative session in which the state took no steps to implement lasting solutions to its severe pension underfunding or to its chronic bill payment delays." An analysis by Bloomberg finds that the assets in the pension fund will only cover "45% of projected liabilities, the least of any state." And—no surprise—

Illinois gets a credit downgrade, in contrast to Wisconsin.

in part because the tax increases have caused companies to leave Illinois, the state budget office confesses that as of this month the state still has \$6.8 billion in unpaid bills and unaddressed obligations.

It's worth contrasting this grim picture with that of Wisconsin north of the border. Last winter Madison was occupied by thousands of union protesters trying to bully legislators to defeat Republican Governor Scott Walker's plan to require government workers to pay a larger share of their health-plan costs, and to shore up the pension system by trimming future retirement liabilities. The reforms passed anyway.

In contrast to the Illinois downgrade, Moody's has praised Mr. Walker's budget as "credit positive for Wisconsin," adding that the money-saving reforms bring "the state's finances closer to a structural budgetary balance." As a result, Wisconsin jumped in Chief Executive magazine's 2011 ranking of each state's business climate—moving to 17th from 41st. Illinois dropped to 48th from 45th as ranked by the nation's top CEOs.

Yet Mr. Walker, who balanced the budget without new taxes, is the governor facing a union-financed attempt to recall him from office this year. If Wisconsin voters want to see where a state ends up without the kind of reforms that Mr. Walker made, they need only look to the Greece next door.