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McGurn: Illinois Blows Smoke at Taxpayers

A cigarette tax hike is an unintentional gift to neighboring states.

By WILLIAM MCGURN

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As long as we're in the business of alerting Americans to all the dangers of tobacco, we might want to slap another scary label on cigarette packaging:

"Warning: The surgeon general has determined that states choosing to address their spending problems by raising taxes on tobacco risk seeing real fiscal restraint go up in smoke."

Such a warning might be especially instructive for Illinois. There the Democratic legislature (with the help of Republicans in the state House) has just raised cigarette taxes by a dollar a pack. Gov. Pat Quinn says everyone wins: The higher tax means more revenue for Medicaid from those who continue to puff, while the higher price will encourage some to quit, lowering smoking-related health costs for the state.

Altogether the new taxes on tobacco products are projected to bring in \$350 million. These dollars will be matched with federal funds, for a total of \$700 million. In other words, what we have here is a "revenue enhancer"—something Republicans are constantly told they must embrace if they are serious about bringing government budgets into balance.



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Associated Press

Illinois Gov. Pat Quinn delivering the State of the Budget Address

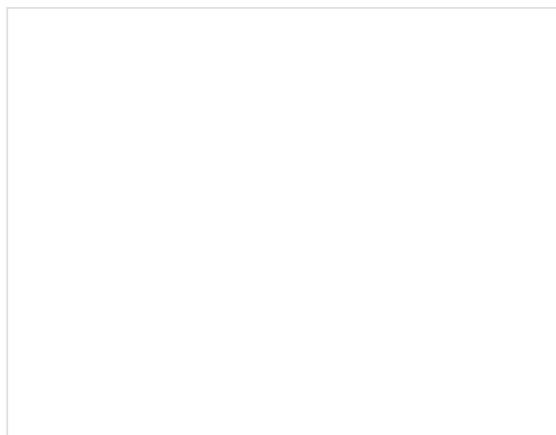
Though no Republican in the Illinois Senate voted for this tax, Republicans over in the state House provided the margin of victory. With Illinois Medicaid now spilling enough red ink to fill Lake Michigan—it accounts for slightly less than a third of the state budget—the legislators who voted yea are no doubt telling themselves they have done the responsible thing here.

Then again, it depends on what you mean by responsible. Within the great

American Midwest, there exists a whole other approach to responsibility and Medicaid. It's called Ohio.

Unlike Illinois, Ohio has a Republican governor, John Kasich, and a reformist Republican legislature. Unlike Illinois, Ohio's governor ruled out tax hikes as a way to address his state's budget hole (\$8 billion). And unlike Illinois, whose Medicaid cuts mostly do nothing to slow the growth of spending, Ohio's Medicaid program expects to see its annual rate of increase cut in half.

How did Buckeye Republicans do it? It turns out that when you can't rely on dubious



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About William McGurn

William McGurn is a Vice President at News Corporation who writes speeches for CEO Rupert Murdoch. Previously he served as Chief Speechwriter for President George W. Bush.

Mr. McGurn has served as chief editorial writer for The Wall Street Journal in New York. He spent more than a decade overseas -- in Brussels for The Wall Street Journal/Europe and in Hong Kong with both the Asian Wall Street Journal and the Far Eastern Economic Review. And in the mid-1990s, he was Washington Bureau Chief for National Review.

Bill is author of a book on Hong Kong ("Perfidious Albion") and a monograph on terrorism ("Terrorist or Freedom Fighter"). He is a member of the Council on Foreign Relations, holds a BA in philosophy from Notre Dame and an MS in Communications from Boston University.

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revenue projections, you get more serious about spending. When Mr. Kasich's people looked at Medicaid, they found that 4% of Ohio's Medicaid cases accounted for 51% of the spending. That allowed them to address costs while improving care—e.g., coordinating care for the most expensive, chronic cases instead of just having them show up in emergency rooms.

In sharp contrast, the cigarette tax in Illinois raises many more questions than it answers. Take the projected \$350 million in revenue, which is designed to help close a \$2.7 billion Medicaid gap.

Illinois is unlikely to meet that target, if only because it is bordered by several states that will now have much lower tobacco taxes. Once again Indiana Gov. Mitch Daniels will have the last laugh on Gov. Quinn. With a cigarette tax that will now be half that of its neighbor, Indiana merchants and the Indiana government will soon enjoy the dollars flowing in from Illinois citizens crossing the border to buy cheaper smokes.

The different approaches to Medicaid reform taken by Illinois and Ohio are a microcosm of the same basic choice that will be before the American electorate come November. It's whether we will have government that lives within its means—and can correct its excesses—or whether we will have Greece.

In Illinois, after all, the doubling of the cigarette tax comes a year after the governor and legislature pushed through what they told us would be a "temporary" boost in the state income tax. Is anyone really surprised that, at 8.7%, Illinois unemployment remains above the 8.2% national average? Or that long-established companies such as Sears and the Chicago Mercantile Exchange make threatening noises about leaving until pols carve out some special treatment for them?

Compare Illinois to Mr. Kasich's Ohio, where unemployment is down to 7.4%, below the national average. Granted, the auto bailouts helped keep the unemployment number lower than it might have been otherwise. Ohio is not quite the mess that Illinois is. And Mr. Kasich saw voters reverse legislation to curb collective bargaining for government workers. Still, Ohio is making tougher choices than Illinois, which remains a regional outlier.

John Tillman, CEO of the free-market Illinois Policy Institute, describes what's really going on with the cigarette tax this way: "The governor and the legislature have opted for making the 2011 'temporary' tax hikes permanent by keeping Medicaid spending at unaffordable levels and relying on more tax dollars to finance it. Worst of all, by looking to taxes they have failed to address the real problems in Medicaid."

That's the problem with rosy "revenue enhancers." Instead of solving the problem of overspending, they tend to give politicians just enough wiggle room to avoid facing up to it. You might call it "blowing smoke."

Write to MainStreet@wsj.com

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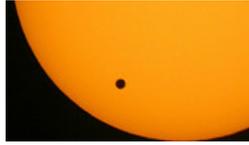
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