The subject of taxes has inspired some of the most memorable quotations in American letters. It was Justice Oliver Wendell Holmes who famously proclaimed, "Taxes are what we pay for a civilized society." And it was Pennsylvania's own 18th century sage Benjamin Franklin who uttered perhaps the best-known one-liner about taxes: "In this world, nothing is certain but death and taxes."

But humorist Arthur Godfrey probably got closest to most of our feelings with his own take on taxes: "I'm proud to be paying taxes in the United States. The only thing is, I could be just as proud for half the money."

The fact is, everyone knows taxes are necessary, but few of us enjoy paying them--and even fewer enjoy paying more of them. That is why more and more of us are looking forward less and less to Gov. Ed Rendell's upcoming March budget proposals.

We suspect he is going to raise our taxes. And we are probably right.

But Rendell is not the villain here. Nor are his Republican predecessors. Pennsylvania has what is known in budget jargon as a "structural deficit." It sounds pretty serious--and it is.

An ordinary deficit is a situation in which projected revenues for a fiscal year are less than projected expenditures. Many relatively benign factors can cause an ordinary deficit, including recessions, bad revenue estimates, emergency conditions or other temporary problems.

The important characteristic of an ordinary deficit is that it is temporary and self-correcting: recessions recede to be replaced by better times, revenue estimates run more closely to actual collections, and emergency conditions end.

But structural deficits are different and much more dangerous to a state's fiscal health. A structural deficit is a situation in which projected revenues do not match budgeted expenditures--and never will--unless either revenues are permanently increased or expenditures are permanently decreased.

A state with an ordinary deficit is like a person with a bad cold--miserable for a while, but in time one gets over it. But a state with a structural deficit is more like a person with a chronic disease. Time will only make it worse. The cure requires some surgery.

How we got here with respect to the structural deficit is worth a few words. The Pennsylvania revenue system creaks with age. The state component of it is largely a blend of taxes adopted in the 1950's and 1970's. The local component is a hodgepodge of nuisance and property taxes rooted in past centuries.

Pennsylvania's local tax system, in particular, is riddled with inequities and inefficiencies. But it is neither fairness nor inefficiency that has produced the structural deficit in question. Fiscal experts refer to the problem
as "revenue adequacy." In ordinary language, the taxes the state levies don't meet the demands we place on government.

The demands have been accruing for several decades and are caused by federal mandates (many unfounded), state enacted programs (many with escalating costs built into them) and active constituency groups demanding services.

Nor is any of this new. The fundamental factors underlying Pennsylvania's structural deficit have been around for some time, but a mix of temporary circumstances, including the unusually flush 1990s allowed the state to defer dealing with it.

In fact, we were in deficit last year about $1.5 billion. That was covered by a variety of one-time fixes, including the Rainy Day fund, adopting some sin taxes, limiting employer contributions to the state's pension funds, and tobacco money.

Before that, the structural deficit was covered over by the booming stock market and the vibrant economy.

A homey old metaphor fits pretty well here. We are in a situation analogous to a family with lots of fixed obligations on a budget that lags the growth of those obligations. Our income increases some every year, but our debts increase faster.

Families in that situation can cut some spending while trying to increase their income somehow. And that isn't too different from what Pennsylvania will probably do.

Cutting spending usually comes first. It surprises no one to learn that politicians like to spend and are loath to cut. But politicians--when faced with the Darth Vader alternative of raising taxes--will cut if left to their own devices.

The problem is that relatively speaking, after some nominal initial cuts, there's not much left to cut. That's because government budgets today are largely comprised of what is often referred to as "uncontrollable" expenditures. These include categories of spending like debt repayment, entitlement programs and essential services.

In the short term, that is any current year's budget, not more and probably less than 10 percent is really controllable in any real sense of that word.

The second alternative is raising taxes. In general, governors hate to raise taxes. They actually have some good reasons for this aversion. Raising taxes in American politics is one of the all-time favorite shortcuts to ending one's stay in the gubernatorial chair.

Voters are rarely supportive of general tax increases--and uncounted numbers of governors have lost public favor as well as public office by ending up on the wrong side of tax increases.

Sometimes governors will go to extremes to avoid a tax increase. Gov. James McGreevey in neighboring New Jersey, facing a $5 billion deficit, is a recent example.
McGreevey's budget eschews any kind of broad based tax increase--no hikes in the personal income tax, the corporate income tax or the sales tax. But he did raise a number of miscellaneous taxes, mostly hidden taxes or those paid by political targets of opportunity (like smokers and gamblers).

And he cut spending with a vengeance. Up to 1,000 state jobs were abolished. Among the dramatic cuts: arts funding; prescription drugs programs for poor and disabled; and state colleges and universities. All together, 14 of 15 state agencies lost funds for next year.

Will Rendell's budget look like McGreevey's? Will he propose a tax hike using one of the broad based taxes--sales or income? Or will he take some middle ground? We will find out soon enough.

But the dilemma Rendell and other governors face is stark. It was neatly summarized by Governing magazine in a recent article rating the 50 states' tax systems. Significantly, perhaps, it picked Pennsylvania to illustrate the point: http://governing.com/gpp/2003/gp3intro.htm.

?Creating and maintaining a high quality tax system ... may be one of the most difficult tasks any state ... faces.... Consider this: When Pennsylvanians were surveyed last summer, the majority favored higher prescription drug subsidies for the elderly, more money for public education, and better funding for higher education. They also however opposed any increase in the state's sales tax or income tax. Gambling was the only new revenue source people favored.?

So, higher spending, yes! But higher taxes, no! Even the mathematically challenged among us see a certain disconnect here.

Economists tell us that there is no free lunch. In government, however, we sometimes manage to put lunch on the tab for a while. In Pennsylvania, we have done that. Now we are about to find out what lunch costs--and equally important--how much we are willing to pay for it.