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Illinois Has Cut Real Spending on All Services Except Health Care, Pensions and Education Since 1995

Illinois' ongoing budget deficits frequently are blamed on profligate spending. Critics assert that since state government spends more dollars on services almost every year, that spending must be the root cause of Illinois' chronic fiscal problems. This criticism, however, is fundamentally flawed, because it fails to account for one essential economic factor that impacts the public and private sectors alike—inflation.

Comparing state spending from one year to the next without accounting for inflation paints an inaccurate picture. For instance, assume a public service costs \$100 to provide in year one, and inflation at 3% causes the cost of providing that very same service to increase to \$103 in year two. Now assume the state appropriates \$102 for spending on that service in year two. While in nominal dollars the agency receiving the \$102 in year two got more than it did in year one, it did not receive enough to maintain the services it provided in year one, just accounting for inflationary cost increases. In real terms, public spending on the service was cut.

After adjusting solely for cost increases caused by inflation from *Fiscal Year 1995 to the current Fiscal Year 2006, Illinois state spending has declined on all public services other than education, healthcare and the pensions.* That means most public services supported by the General Revenue Fund (GRF) budget have been cut over time, including environmental protection, human services, public safety, agriculture and economic development.

Table 1 below compares actual GRF budgets as enacted from FY 1995 to FY 2006, to what the budget would have been if it had kept pace with inflation based on the Consumer Price Index (CPI) during the same period.

Table 1

Actual GRF Budget Items Versus Inflation Adjusted (CPI) GRF Budget Items: FY 1995—FY 2006 (\$ in billions)

Budget Category	FY 1995 Actual	FY 1995 Inflation Adjusted to FY2006 (CPI)	FY 2006 Enacted	\$ Difference Between 1995 Adj'd for Inflation (CPI) & 2006 Enacted
Total GRF	\$17,302.0	\$22,613.7	\$24,406.4	\$1,792.7
Education	\$3,656.0	\$4,778.4	\$6,123.0	\$1,344.6
Health Care	\$4,319.0	\$5,644.9	\$7,034.0	\$1,389.1
Pensions	\$519.0	\$678.3	\$938.4	\$260.1
All public services other than Health Care, Pensions & Education	\$8,808.0	\$11,512.1	\$10,311.0	-\$1,201.1

As Table 1 demonstrates, total GRF spending on all services except health care, pensions and education has decreased in real terms by \$1.2 billion since 1995, based on inflation pegged to CPI.

However, using CPI as the measure of inflation in all probability understates the actual increased costs of providing public services. That is because employee costs are the primary costs of providing public services, all of which are labor intensive. As Table 2 illustrates, using the more relevant Employment Cost Index (ECI) as the inflation measure, overall GRF appropriations have declined by \$370 million since FY 1995, and GRF spending on all services except education, healthcare and the pension declined by \$2.3 billion.

Table 2
Actual GRF Budget Items Versus Inflation Adjusted (ECI) GRF Budget Items:
FY 1995—FY 2006 (\$ in billions)

Budget Category	FY 1995 Actual	FY 1995 Inflation Adjusted to FY2006 (ECI)	FY 2006 Enacted	\$ Difference Between 1995 Adj'd for Inflation (ECI) & 2006 Enacted
Total GRF	\$17,302.0	\$24,776.5	\$24,406.4	-\$370.1
Education	\$3,656.0	\$5,235.4	\$6,123.0	\$887.6
Health Care	\$4,319.0	\$6,184.8	\$7,034.0	\$849.2
Pension	\$519.0	\$743.2	\$938.4	\$195.2
All public services other than Health Care, Pensions & Education	\$8,808.0	\$12,613.1	\$10,311.0	-\$2,302.1

Looking ahead, there are reasons to be concerned about Illinois’ ability to sustain funding public services at current levels. First, state revenues are projected to continue falling short of inflation, even during periods of strong economic growth.¹ Second, over the next 40 years, the state’s required pension contributions are scheduled to increase by billions of dollars per year, to make up for past under funding. By FY 2035, the annual pension contribution is scheduled to be over \$10 billion. Finally, Medicaid liabilities have been increasing by an average of almost 10% per year.² Meanwhile, median income in Illinois has been declining.³ If these trends continue, Illinois will realize decreasing returns on its personal income tax revenue, while demand for Medicaid services will increase.

The Illinois fiscal system as currently designed simply does not have the capacity to continue funding the current level of public services, especially given the reasonable foreseeable challenges the future holds.

¹ Analysis of FY 2006 Revenue Estimates by the Illinois’ Commission on Forecasting and Accountability, August 2005.

² Medicaid information: <http://www.apps.ioc.state.il.us/ioc-pdf/FFWebSept04.pdf>,

³ Median income information: http://www.stateofworkingillinois.niu.edu/swil/pubs/swil_report.pdf

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