

Private Sector Job Trends and The Illinois Structural Deficit

What Illinois' Changing Economy Means For The Demand For Public Services and The State's Fiscal Capacity to Fund Them

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Table of Contents

Introduction.....	2
The State's Fiscal Capacity.....	2
Factors that Created the Structural Deficit.....	4
Revenue Shortcomings.....	4
Wage Impact on State Revenues.....	4
Structural Issues in the Revenue System.....	5
Spending Pressures.....	8
Costs of Maintaining Current Service Levels.....	9
Pension Ramp.....	10
Healthcare Pressures.....	10
Conclusion.....	11

List of Figures

Figure 1: The Illinois Structural Deficit.....	3
Figure 2: The State's Projected Deficit.....	4
Figure 3: Impact on the Deficit of Increasing Number of High Paying Jobs from 41% to 61% over the Next Decade.....	5
Figure 4: Percentage Change in Share of Income in Illinois After State Tax Burden, Calendar Year 2006.....	6
Figure 5: Income Growth in Illinois 1988-2006.....	7
Figure 6: Illinois State Tax Revenues Do Not Grow With Inflation.....	8
Figure 7: Inflation Adjusted Comparison (by the Consumer Price Index (CPI) of State General Fund Expenditures Over the Last Decade (\$ in billions).....	9
Figure 8: Structural Deficit Impact by Budget Category.....	9
Figure 9: The Number of Uninsured in Illinois Compared to the Number of Medicaid Beneficiaries.....	10
Figure 10: Growth in Medicaid General Fund Expenditures.....	11

Introduction

The State of Working Illinois is an annual report that details the state's industry, job, wage and benefit changes over time prepared by Northern Illinois University and the Center for Tax and Budget Accountability. The most recent report documented a number of challenges for policymakers based on changes in the Illinois economy. Among other things, the report showed that:¹

- Median income in Illinois declined by 12.2% over the last six years, the second worst decline in the nation;
- Since 1979, the percentage of Illinois workers with employer provided health insurance declined to 59.6% from 75.4%;
- Less than half of Illinois workers currently have any private, employer-provided retirement benefits;
- Illinois lost 224,000 high paying manufacturing jobs over the last 15 years; and
- Most job growth occurred in the lower paying, reduced benefit, service sectors.

The report also found that education and training matter more than ever before in both becoming employable—and the level of wages and benefits received once employed. It appears that even a high school diploma or GED is no longer a ticket to earning wages that will grow with inflation over time. Now, a worker will need some training or education beyond 12th grade to obtain a job that pays a wage that grows at or above the rate of inflation. Looking forward, *the State of Working Illinois* projected that almost 60% of all new jobs created in the state over the next 10 years will pay less than the current average of occupational wages, indicating median income may very well continue declining.

Certainly, the Illinois economy is experiencing a transition that has major implications for the workforce and employers alike. But these implications do not stop with the private sector, they also have significant consequences for state government, impacting both the revenue and expenditure sides of the budget. On the revenue side, wages that grow at rates exceeding inflation lead to growing incomes, and concomitant increases in tax revenue, which build the state's capacity to provide public services. Although this is an obvious aspect of the relationship between wages and the state budget, it is not the most meaningful. That is because, to a significant degree, longstanding structural flaws in the state fiscal system limit Illinois' ability to generate revenue that responds adequately to economic growth.

From a demand for public services standpoint, wage and benefit trends are crucially important. To the extent that many workers are realizing a decline in income over time, or a loss of health and/or retirement benefits, the corresponding demand for the public sector to fill benefit gaps, provide access to healthcare, childcare, housing assistance or even income supports grows, which in turn presents two fundamental questions for state government. Can Illinois' current fiscal system be expected to generate enough revenue to meet this growing demand for services? If not, will increasing the number of high paying jobs materially enhance the state's fiscal capacity, given the current tax structure?

The State's Fiscal Capacity

Whether or not Illinois state government will have the capacity to meet the public service demands created by the state's changing economy depends on the health of the Illinois fiscal system. According to the Illinois Comptroller's Office, the state ran a \$3.1 billion GAAP² deficit in Fiscal Year 2005,³ the largest such deficit of any state in the nation.⁴ This may seem odd, given the state constitutional requirement that Illinois produce a balanced budget annually.⁵ That requirement notwithstanding, there are numerous stratagems available that enable the state to deficit spend, while still technically complying with the balanced budget requirement.⁶ These stratagems have been utilized by state government to varying degrees for decades, culminating in the accumulated GAAP deficit that exists today. They also have allowed the state to maintain public service levels that it does not have the fiscal capacity to afford. Consider Fiscal Year 2005, when state government effectively spent \$3.1 billion more on

¹ Center for Tax and Budget Accountability and Northern Illinois University. *The State of Working Illinois*, 2005 and 2006.

² Generally Accepted Accounting Principles. A standard established by the Accounting Practices Board of the American Institute of Certified Public Accountants. These rules, conventions, and procedures define accepted accounting practices.

³ State of Illinois, Office of the Comptroller, *Hynes Calls for Reforms to Address Medicaid Liabilities and Resulting Structural Deficit Problems*, 7/7/2006.

⁴ A comparison of Comprehensive Annual Financial Reports for each state is available from the National Association of State Auditors, Comptrollers and Treasurers.

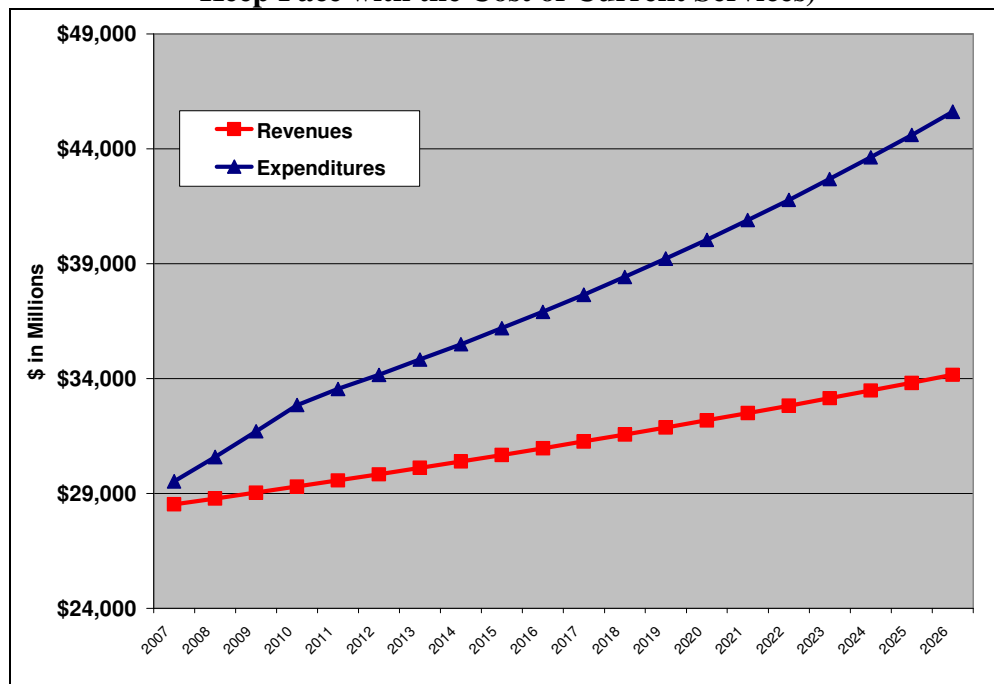
⁵ IL Const. art. VIII, § 2. Note: 49 of the 50 states have balanced budget requirements.

⁶ E.g., the state is able to defer Medicaid payments to health care providers from one fiscal year to the next under 30 ILCS. 105/25.

services than it had the revenue to cover. This \$3.1 billion in deficit spending accounted for 13% of the total amount of Fiscal Year 2005 General Fund appropriations for all public services.⁷ If state government does not have the fiscal capacity to provide the current level of public services it delivers without deficit spending, it cannot be expected to satisfy growing demand for public services that can be anticipated to develop from declining wage and benefit trends.

Illinois' deficit is not just a one-time aberration resulting from unforeseen economic conditions, or the actions of any one administration or legislature. It is the result of a revenue system that has not grown with the economy for decades,⁸ even though the cost of providing services has. This fiscal mismatch is called a "structural deficit".⁹ It results when a tax system does not generate enough revenue to continue funding the current level of public services into the future, adjusting solely for inflation and population growth. Even The Civic Committee of the Commercial Club of Chicago, an organization of 300 business leaders in Chicago, recently confirmed that this fiscal mismatch exists in Illinois state government. In its report, *Facing Facts*, The Civic Committee finds there is a significant, "gap between current state revenues and total state expenses" and that, "...to avoid collapse, a tax increase may be inevitable."¹⁰

Figure 1
The Illinois Structural Deficit
(How Revenue Growth will not
Keep Pace with the Cost of Current Services)



Put another way, even if Illinois does not expand, enhance or increase any existing services or provide any new services, and even if the state were starting with a balanced budget, the revenue system will *still* create a deficit over time. Figure 1 isolates how the state's tax system fails to generate enough revenue to maintain current service levels over time, by ignoring the current, GAAP deficit that has accumulated over decades, instead starting the projection assuming the state actually had recurring revenues equivalent to its budgeted expenditures for Fiscal Year 2007.¹¹

⁷ State of Illinois Fiscal Year 2005 Budget Book. The Fiscal Year 2005 General Revenue Fund budget was \$23.8 billion.

⁸ Giertz, J Fred., Therese J. McGuire, and James D. Nowlan. 1995. 'The Illinois Structural Deficit Dilemma: The Growing Gap Between State Expectations and Revenue Realities.' *State Tax Notes*. March 4, pp. 727-737.

⁹ Ibid.

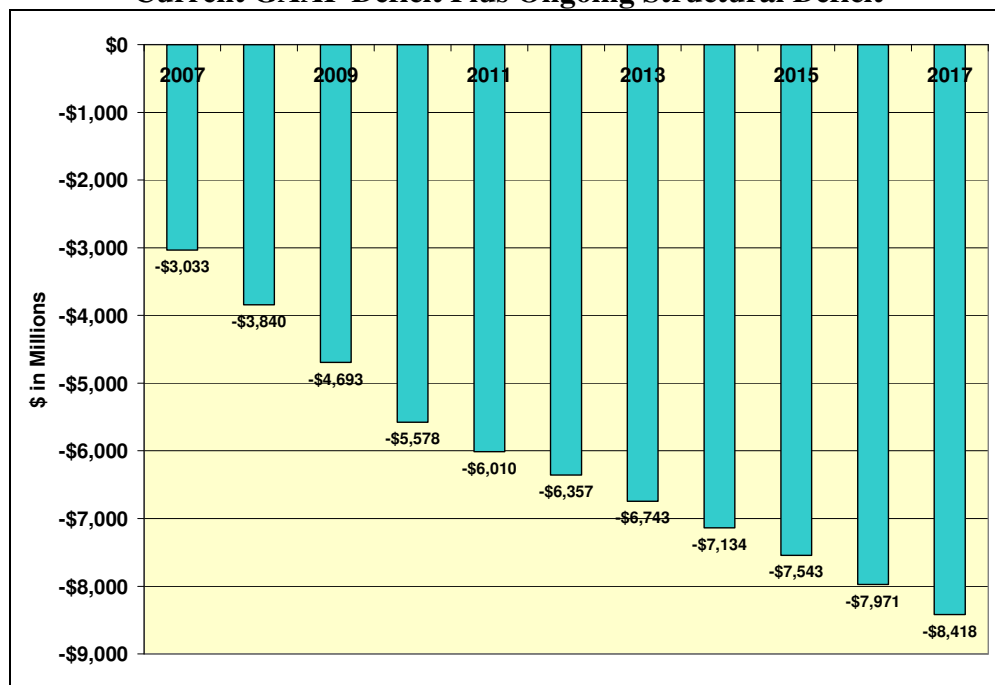
¹⁰ The Civic Committee of the Commercial Club of Chicago, *Facing Fact*, December, 2006.

¹¹ Based on the modeling designed for CTBA by J. Fred Giertz, Professor of Economics, University of Illinois and faculty at the Institute of Government and Public Affairs.

The projection of ongoing revenue shortfalls in Figure 1 is a conservative estimate that assumes: (i) the economy will grow by four percent per year through 2026; and (ii) no new programs and no program expansions are passed, only current services under existing laws are maintained. The graph then compares the projected costs of maintaining current services over time against projected state revenue growth, adjusting solely for inflation based on the Bureau of Labor Statistics Consumer Price Index¹² and population growth. It does *not* include the state's GAAP deficit accumulated to date.

As Figure 1 illustrates, even if Illinois started with a balanced budget and had an economy that grew at four percent annually, the state's deficit will still increase by more than \$3 billion dollars over the next five years, without adding or expanding programs. Figure 2 includes the state's current, accumulated GAAP deficit, and shows how, absent corrective action, that deficit will grow in the future due solely to the structural imbalance between revenue and cost growth.

Figure 2
State's Projected Deficit
Current GAAP Deficit Plus Ongoing Structural Deficit



FACTORS THAT CREATE THE STRUCTURAL DEFICIT

Revenue Shortcomings

No one factor is to blame for the ongoing structural deficit in Illinois. Instead, both revenue shortcomings and public service cost pressures have combined to create the problem. On the revenue side, everything from declining median wages in the state¹³, to a tax structure that fails to track the modern economy¹⁴ have resulted in revenue underperformance. On the cost side, everything from inflation, to healthcare costs that outpace inflation, to making up for previous failures to fund public employee pensions, have created an increasing cost matrix that the state's revenue system cannot satisfy.

Wage Impact on State Revenues

Employment conditions directly affect how much revenue the state will receive in two ways. First, subject to the state's \$2,000 personal exemption per qualified dependent and other adjustments to gross income, earned income currently is taxed under Illinois' individual income tax,¹⁵ at the flat rate of three percent.¹⁶ Second, as wages

¹² United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index, CPI-U.

¹³ Center for Tax and Budget Accountability and Northern Illinois University, State of Working Illinois, 2005.

¹⁴ Institute on Taxation and Economic Policy, Balancing Act: Choice for Illinois Tax Reform, February, 2006.

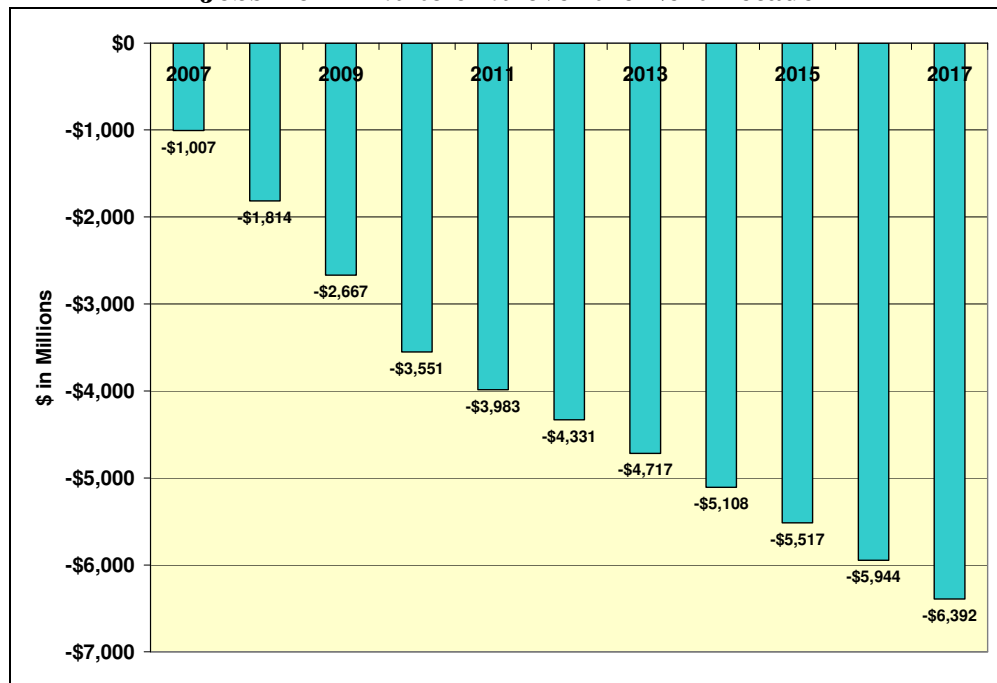
¹⁵ 35 ILCS 5/101 to 5/1701.

increase, individuals have more disposable income to spend in the consumer economy. To the extent these expenditures are made purchasing items subject to the state's sales tax (called the "Retailers' Occupation Tax"¹⁷), additional revenue is generated for state and local governments.

The State of Working Illinois 2005, projected that over the next ten years, less than half (only 41%) of all new jobs created in Illinois will pay more than the state's current median wage. Based on that, out of a total of 617,141 projected new jobs for the coming decade, 254,180 will be high paying. Annually, each high paying job will generate an aggregate of \$1,085 dollars more in tax revenue than the average low paying job (\$895¹⁸ more in income tax revenue and \$189¹⁹ in sales tax revenue). In addition to additional direct revenue, each high paying job creates more indirect revenue for state coffers, as workers spend their increased wages in the Illinois economy. Given the relative value of increased wages associated with generating higher paying jobs to the overall Illinois economy, a conservative multiplier of 1.5 to 2.0 would be appropriate to measure this indirect economic impact.²⁰

How, then, would increasing the number of high paying jobs over the next decade impact revenue generation for state government? If the number of projected high paying jobs were to be increased to 60% from the current projection of 41%, the state would gain an additional \$80 million in direct and indirect tax revenue per year over the next decade. As Figure 3 shows, the structural problems in the state's fiscal system are so severe that even if the number of projected high paying jobs was substantially increased to 60% of all new jobs, there will be only a minor reduction in Illinois' growing structural deficit.

Figure 3
Impact on the Deficit of Increasing Number of High Paying Jobs from 41% to 61% over the Next Decade



Structural Issues

While wage trends have some impact on revenue generation, flaws in the fiscal system make a substantially more material contribution to the state's ongoing revenue underperformance and concomitant deficits.²¹ Under capitalist

¹⁶ 35 ILCS 5/201 imposes a 3% state income tax on Illinois residents.

¹⁷ 35 ILCS 120/1 to 120/14.

¹⁸ The Illinois adjusted gross income for projected jobs paying a wage above the median (\$46,132) is \$48,796 per job. The Illinois adjusted gross income for projected jobs paying a wage below the median is \$18,996 per job. At a 3% income tax, each high paying job will generate, on the average, \$895 more in income tax revenue than each low paying job.

¹⁹ The difference between the projected average wage above and below the median is \$29,801. Subtracting the average personal savings rate over the past ten years of 2.6% of income, leaves \$29,025 remaining for personal expenditures. Based on the United States Census Bureau's Economic Census 2002, Illinois taxes 13% of all consumer expenditures at the rate of 5%. This results in an average of \$189 in additional sales tax revenue generated from each high paying over each low paying job.

²⁰ J. Fred Giertz, Professor of Economics, University of Illinois and faculty member at the Institute of Government and Public Affairs.

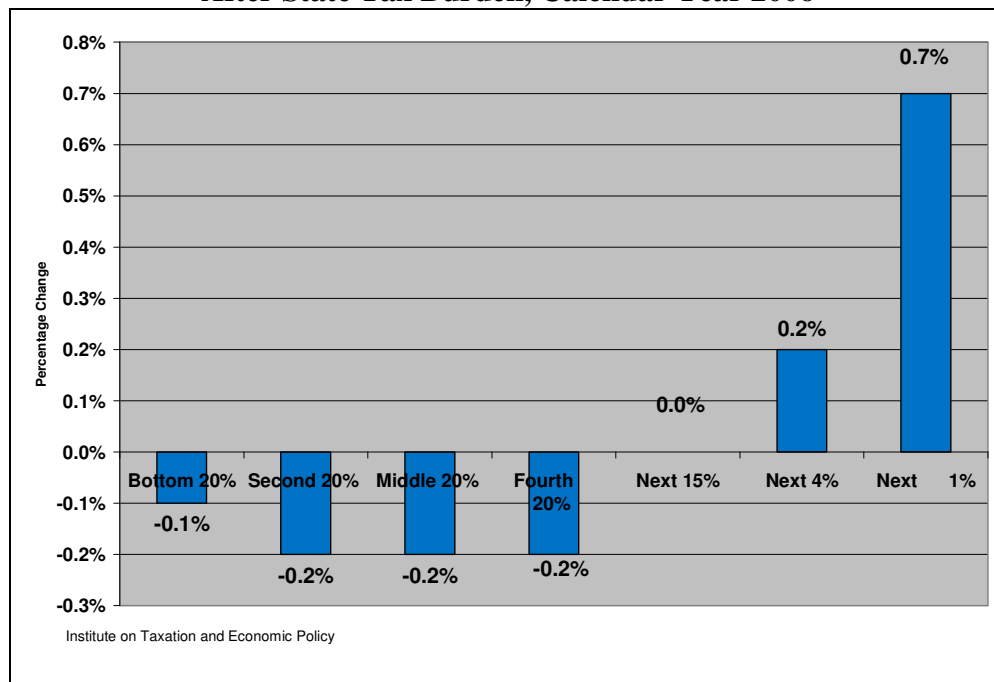
²¹ Institute on Taxation and Economic Policy, *Balancing Act: Choice for Illinois Tax Reform*, February, 2006.

theory of public finance, a sound tax system incorporates the four primary elements of fairness, responsiveness, stability and efficiency.²² The current Illinois system fails to satisfy any of these principles.

A "fair" tax system in a capitalist economy is progressive,²³ imposing a greater tax burden on affluent taxpayers than on low and middle income taxpayers, when tax burden is measured as a percentage of income.

- **The Illinois tax system is not fair, because far from being progressive, it is among the most regressive in the country,** placing a much greater tax burden on low and middle income taxpayers than affluent taxpayers, when tax burden is measured as a percentage of income.²⁴ Precisely because the Illinois tax system is regressive, it has actually worsened growing income inequality in the state over the last 15 years, as demonstrated in Figure 4.

Figure 4
Percentage Change in Share of Income in Illinois
After State Tax Burden, Calendar Year 2006



A "responsive" tax system tracks real, economic growth patterns, capturing increased revenue during periods of strong economic expansion, but producing less revenue during downturns. Implementing a progressive income tax is the best way to ensure a tax system is both responsive to growth in the economy and assesses tax burden fairly across income classes, because over time, income growth disproportionately goes to upper income classes, as Figure 5 demonstrates.²⁵

- **The Illinois tax structure does not respond to economic growth** because the state personal income tax is set at a flat rate across all income levels, rather than the progressive rates most economists recommend. Hence, the tax does not "respond" to how economic growth is distributed in the economy.

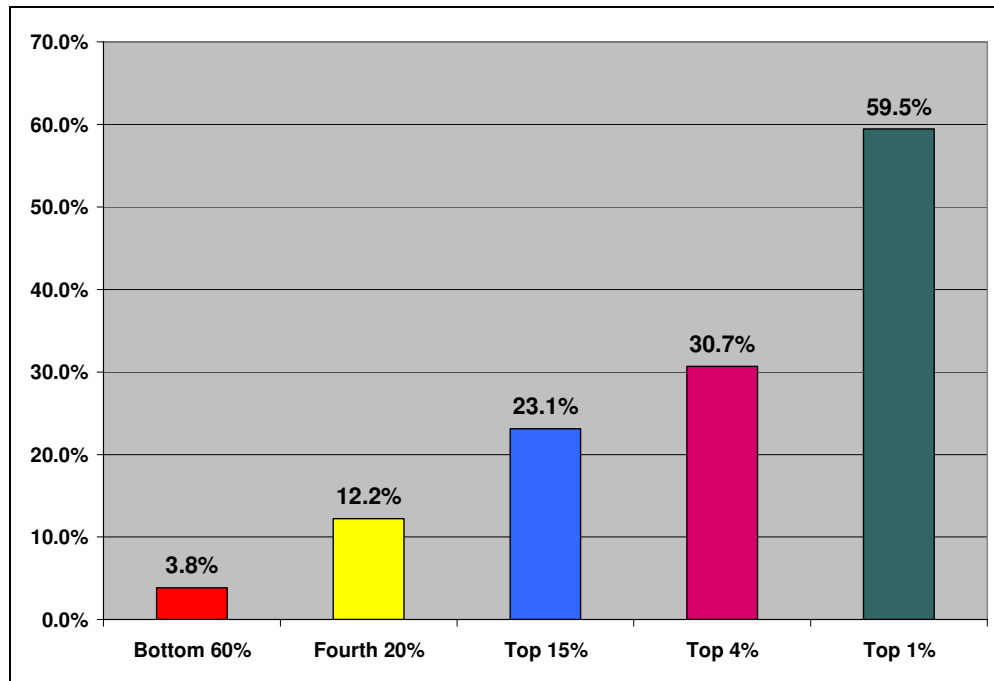
²² National Conference of State Legislatures, Principles of a High-Quality State Revenue System, June 2001.

²³ Smith, Adam. (2003). *Wealth of Nations* (5th ed.). New York: Random House. First published in 1776.

²⁴ Institute on Taxation and Economic Policy, Balancing Act: Choices for Illinois Tax Reform, February, 2006.

²⁵ Center for Tax and Budget Accountability and Institute on Taxation and Economic Policy analysis of historical Internal Revenue Service and United States Census Bureau data.

Figure 5
Income Growth in Illinois
1988-2006



A **"stable" tax system** maintains base revenue collection even during poor economic cycles. Generally, having a sales tax that is imposed on the broad range of the transactions actually occurring in the consumer economy is the best way to have a stable state tax system. The sales tax helps bring stability to a revenue system because consumer spending, which accounts for two-thirds of the nation's economy,²⁶ remains fairly constant even during economic downturns.²⁷ Since sales taxes typically apply to what consumers purchase, a well designed sales tax will continue producing revenue even during a recession.

- **The Illinois tax structure is not stable** because the state's sales tax is not broad-based, that is, it does not apply to most of what is sold in the state's consumer economy. The main failing of the state's sales tax is that it does not apply to consumer services, the largest and fastest growing sector of the state's economy.²⁸ Of the 168 taxable services that could be included in the sales tax base, Illinois taxes only 17.²⁹ Illinois taxes fewer services than all its neighboring states, Iowa, Wisconsin, Missouri, Indiana and Kentucky.

While the state's sales tax base is too narrow, the state's sales tax rate is the seventh highest in the nation and tied with three other states.³⁰ The present combined basic state and local rate for the sales tax in most of Illinois is 6.25% (it is higher in Cook County), which is allocated 5% to the state and 1.25% to local governments. Leaving the largest and fastest growing sector of the Illinois economy out of the state's tax base severely restricts the system's ability to generate revenue over time, and fails to stabilize revenue generation during economic downturns, when demand for public services increases.

An **"efficient" tax system** is one that has minimal impact on important economic decisions private taxpayers make, like where to purchase a home or locate a business.³¹ Generally, an efficient tax system is more reliant on state-based revenue sources, like income and sales taxes, than local revenue sources like property taxes, to fund public services. This is because over-reliance on property taxes as a revenue source creates significant tax competition among local governments, causing a meaningful differential between property tax rates and tax relief incentive programs from community to community.

²⁶ United States Federal Trade Commission. Prepared Statement for the House Financial Services Committee. June 4, 2003.

²⁷ Center on Budget and Policy Priorities, Michael Mazerov. Expanding Sales Taxation of Services. June, 2003.

²⁸ Based on United States Census Bureau, 2002 Economic Census data.

²⁹ As defined by the Federation of Tax Administrators analysis of the North American Industrial Classification System.

³⁰ Federation of Tax Administrators.

³¹ Henry Aaron and Alicia Munnell, "Reassessing the Role for Wealth Transfer Taxes," National Tax Journal, June 1992.

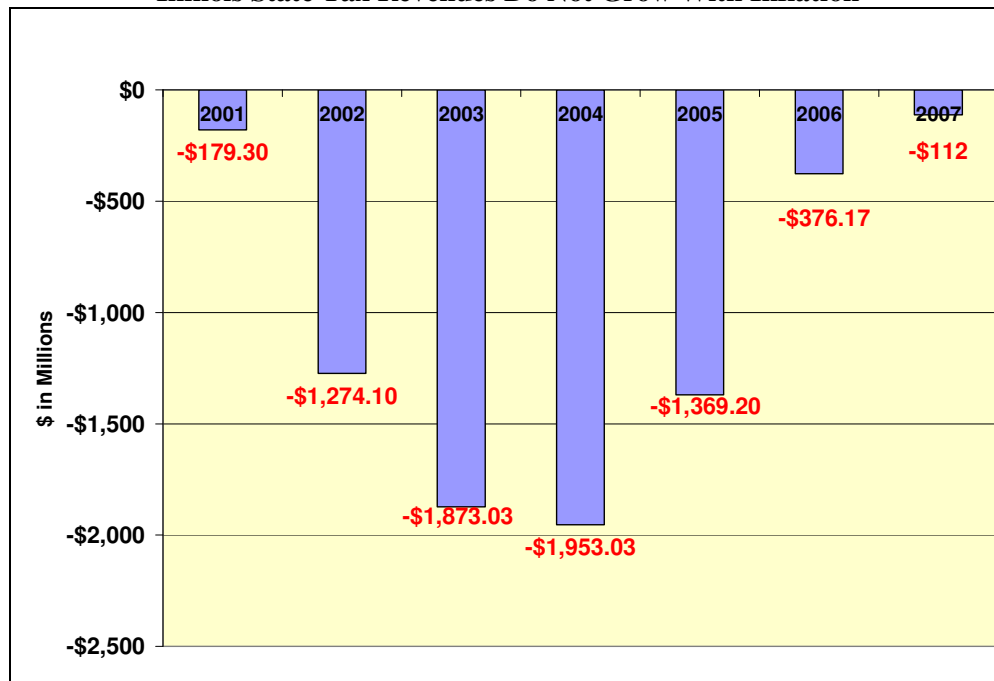
- **The Illinois tax system is inefficient** because it is over-reliant on property taxes as a revenue source, primarily to fund education. How reliant? Annually, more revenue is collected from property taxes in Illinois than the personal income and sales taxes combined.³²

Over reliance on property taxes is very inefficient – that is, it distorts private marketplace economic decisions. For instance, if property tax burdens are high in comparison to available local services, both businesses and individuals have an incentive to leave the area, and a disincentive to locate in that area. This results in a local community suffering a decrease in its property tax base and values, and forces that community to increase property tax rates even higher, as the services it can afford to provide decline.

Property taxes also absorb a higher percentage of income for families of low or moderate means and or on fixed incomes, making property taxes regressive and unfair. Compare that to the income tax, which responds directly to a person’s ability to pay it. When an individual’s income increases so does her income tax burden. Similarly, if an individual loses her job, her income tax burden will decrease. Property tax burden, however, continues to escalate, irrespective of a taxpayer’s income, and hence ability to pay.

These structural flaws in the Illinois tax system result in ongoing revenue underperformance. As Figure 6 demonstrates, Illinois state revenues collected from taxes have failed to grow with inflation since 2001, falling short of inflation by a little more than \$7 billion in the aggregate over that period.³³

Figure 6³⁴
Illinois State Tax Revenues Do Not Grow With Inflation



Spending Pressures

In addition to revenue shortfalls, spending pressures contribute to the state's structural deficit. These spending pressures are primarily due to three factors: inflationary costs of maintaining public service levels from one year to the next; increased demand for costly public services like healthcare; and state government's historic underfunding of its five public employee pension systems. Interestingly, however, data reveal that while expansion of some programs, particularly education funding and Medicaid, have played a role in increasing the state's structural deficit, it does not appear that inordinate or wasteful spending is the major cause.

Determining the appropriate level of public expenditures on any service or in the aggregate is ultimately a political, rather than economic question. That said, Illinois' state deficit problems frequently are blamed on public sector over spending. Data can at least shed some light on whether, in relative terms, Illinois state government is

³² Based on Illinois Department of Revenue 2003 Property Tax data, the latest available compared to Illinois Commission on Forecasting and Accountability 2003 Income and Sales tax data.

³³ Center for Tax and Budget Accountability analysis of tax revenue since 2000, inflation based on United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index, CPI-U.

³⁴ Includes Personal and Corporate Income, Sales and Public Utility Taxes.

overspending, by comparing Illinois spending versus the spending habits of the other 49 states. Analyzing state spending, whether as a percentage of income in a state or state gross product, Illinois is a low spending state, ranking 42nd nationally, in spite of having the fifth largest population and gross state product.³⁵ As Figure 7 demonstrates, on an inflation adjusted basis, over the last decade Illinois has cut aggregate spending on all public services other than education, healthcare and the pension system by over \$1.1 billion.

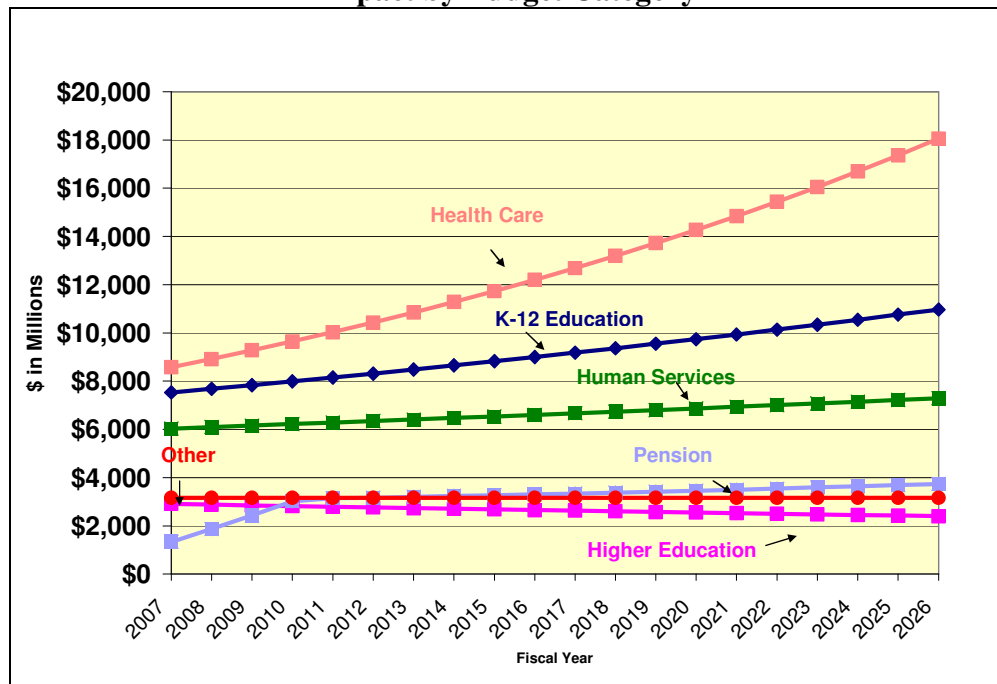
Figure 7
Inflation Adjusted Comparison (by the Consumer Price Index (CPI))
of State General Fund Expenditures Over the Last Decade (\$ in millions)

Budget Category	FY 1995 Actual	FY 1995 Inflation Adjusted to FY2006 using CPI	FY 2006 Enacted	\$ Difference Between 1995 Adj'd for Inflation (CPI) & 2006 Enacted
General Fund	\$17,302	\$22,614	\$24,406	\$1,793
Education	\$3,656	\$4,778	\$6,093	\$1,315
Health Care	\$4,319	\$5,645	\$7,034	\$1,390
Pensions	\$519	\$678	\$938	\$260
All public services except Education, Health Care & Pensions	\$8,808	\$11,512	\$10,341	-\$1,171

Costs of Maintaining Current Service Levels

Even without adding new programs, the costs to Illinois of providing public services like education, healthcare, transportation, public safety and environmental protection increase annually due to economic factors outside the state’s control, such as inflation and population growth. Figure 8 itemizes the projected costs of key budget expenditures by category. Starting with the state's currently scheduled Fiscal Year 2007 general fund appropriations, each of the main budget items then has its likely inflationary cost increase projected forward, based on historical data from the preceding 20 years. For instance, the cost of health care, such as Medicaid and the state employees’ healthcare program, which currently account for 30.7% of the state's total amount of Fiscal Year 2007 general fund appropriations, is estimated to grow at its historic rate of four percent more than the Consumer Price Index,³⁶ while K-12 Education costs are projected to grow at rates about two percent above inflation.

Figure 8
Structural Deficit
Impact by Budget Category



³⁵ United States Census Bureau, Bureau of Economic Analysis Regional Economic Accounts – Annual State Personal Income. National Association of State Budget Officers, *State Expenditure Survey*, 2004.

³⁶ J. Fred Giertz, Professor of Economics, University of Illinois and faculty at the Institute of Government and Public Affairs analysis of historical health care costs in Illinois and United States Congressional Budget Office projections of Medicaid costs.

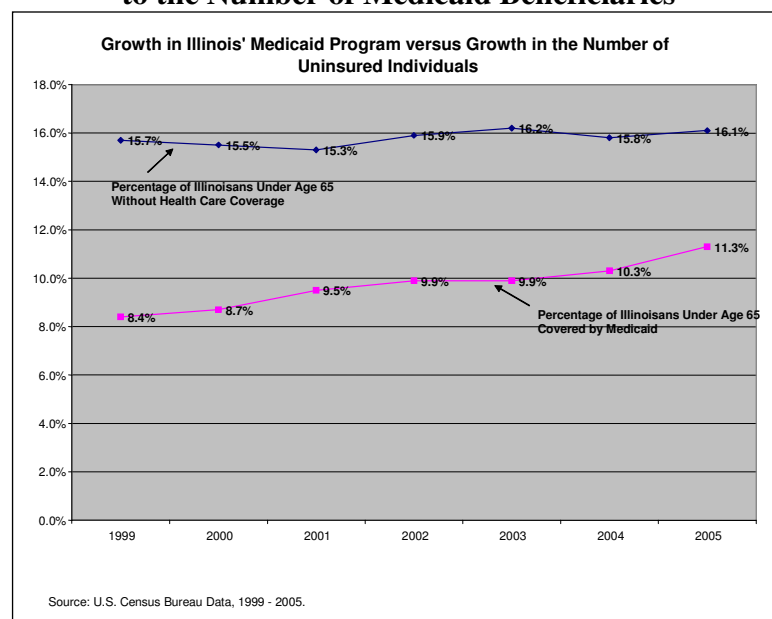
Pension Ramp

Over the past three decades, Illinois has consistently under funded the employer contribution it owes to the five state public employee pension systems, creating the country's largest unfunded pension liability of a projected \$42.2 billion.³⁷ Over the next 20 years, pension payments are scheduled to grow to over \$6 billion annually, at times increasing by almost \$1 billion per year.

Healthcare Pressures

Between 1979 and 2003, 15 percent of Illinois workers lost their employer-provided health insurance.³⁸ As the private sector scales back this benefit, the need for public health care coverage for low and increasingly middle income families will increase. Today, over 40 percent of the Illinois workforce does not have private, employer provided health insurance.³⁹ As Figure 9 illustrates, the number of uninsured individuals in Illinois grew over the last several years to its current level of 16.1 percent of the population in 2005.⁴⁰ Medicaid, the means-tested federal-state health insurance program for uninsured families, has helped stem the tide of those without health insurance. As the bottom trend line in Figure 9 indicates, Medicaid now covers 11.3 percent of the Illinois population. Taken together, as of 2005, 27.4% of the state's population was either uninsured or on Medicaid.

Figure 9
The Number of Uninsured in Illinois Compared to the Number of Medicaid Beneficiaries



The impact of reduced availability of private health coverage from employers is reflected in the Medicaid data. Nationally, more than 75 percent of Medicaid beneficiaries are not on welfare, and fully 96 percent⁴¹ of Illinois Medicaid recipients are not receiving welfare,⁴² but are either working, or unable to do so due to age or disability. Illinois' chronic fiscal problems make it increasingly difficult for the state to keep up with both increasing demand for healthcare and soaring health care costs, which historically grow faster than general inflation.⁴³ This problem is evident from the gap between the increase in liability for Illinois' Medicaid program, which grew at an average

³⁷ Illinois Commission on Government Forecasting and Accountability, Report on the Financial Condition of the Illinois Public Employee Retirement Systems, August 2006.

³⁸ Center for Tax and Budget Accountability and Northern Illinois University, *The State of Working Illinois*, 2005.

³⁹ Center for Tax and Budget Accountability and Northern Illinois University. *The State of Working Illinois*, 2006.

⁴⁰ Center for Tax and Budget Accountability analysis of United States Census Bureau data from 1999-2005.

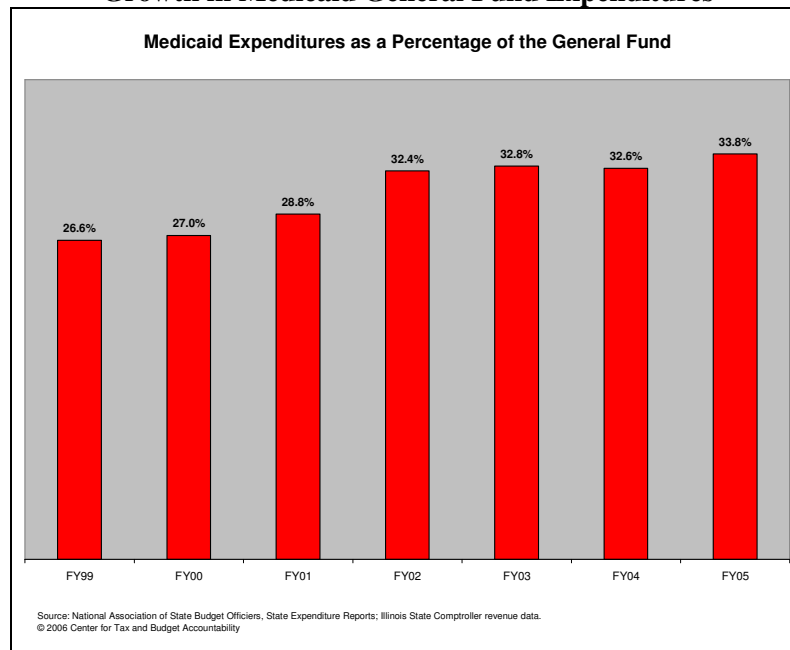
⁴¹ Illinois Department of Healthcare and Family Services.

⁴² The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 created Temporary Assistance for Needy Families (TANF), which is the current, national welfare program.

⁴³ The Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits 2005 Annual Survey*, September 2005.

annual rate of nine percent between fiscal years 2000 and 2004, and the increase in state tax revenue over that period, which grew at an average annual rate of only 2.5 percent.⁴⁴

Figure 10
Growth in Medicaid General Fund Expenditures



Conclusion

Declining wage and benefit levels for workers, coupled with the transition in the state's economy away from its traditional manufacturing base and towards service sectors, can be anticipated to challenge Illinois state government's ability to raise revenue and provide the public services that will increasingly be demanded. This will be especially so if the private sector continues to reduce key benefits, like healthcare and pensions. Meanwhile, the state's regressive tax system has actually worsened growing income inequality in Illinois, and made it more difficult for middle and low income working families to make ends meet. However, even if Illinois were to create significantly more high paying jobs than currently projected, state government would still run a deficit. Due to its poorly designed fiscal system that has created a structural imbalance between what revenues produce and the ongoing cost of public services, Illinois state government seems ill-equipped to meet the challenges posed by changes in the private economy.

The only real solution to the state's structural flaws is modernizing the state's tax system so it grows with the economy and is not overly reliant on the poor and middle class, like the reforms proposed in SB/HB 750 by Senator James Meeks (I-15). The fundamental tax reform approach contained in HB 750 was in material part also recommended by The Civic Committee of the Commercial Club of Chicago, which found that, "To avoid collapse, a tax increase may be inevitable. The State could increase its income tax rates and expand its sales tax base without jeopardizing its competitive status compared to other Midwestern or urban industrial states."

Eliminating the structural deficit and making the state solvent requires tax reform. Illinois can accomplish sustainable tax reform and maintain its overall, low-tax competitiveness, by following the fundamental principles of sound, capitalist taxation; i.e., taxation should be fair, responsive to economic growth, stable during recessions, and not over reliant on local property tax revenue.

Ultimately, Illinois either will have to significantly reduce the level of public services it provides or modernize how it taxes to raise revenue to eliminate its ongoing deficit problems.

⁴⁴ State of Illinois, Office of the Comptroller, "Medicaid Continues to Challenge State Budgets," *Fiscal Focus*, May 2005 (Medicaid liability growth); Illinois Commission on Forecasting and Accountability revenue data.