



THE COST OF CUTS IN ILLINOIS

Budget Cuts Hurt Families, Communities, and the Economy

INTRODUCTION

In 2008, the United States experienced a severe financial crisis, the result of increasingly risky practices among the country's large financial institutions and the deregulation that allowed these practices to flourish.

The resulting Great Recession unleashed widespread economic insecurity and deepened existing economic inequalities. It also caused revenue shortfalls. To close these gaps, Illinois lawmakers have prioritized budget cuts over requiring corporations and the rich to assume an adequate share of the sacrifice. The tax increase passed by the Legislature in January 2011 was too little too late and sunsets in 2015.

Illinois' investments in health, education, and other human and physical infrastructure form the basis for the ability of families to participate in the economy and contribute to prosperity. These investments are especially important now, with continued high unemployment, a shattered housing market, and demand lagging for small businesses.

Instead of raising adequate revenue, Illinois lawmakers have asked middle- and lower-income people to sacrifice the most by laying off thousands of state employees, closing homes for the mentally ill and developmentally disabled, and slashing the social safety net.¹ This decision has resulted not only in disinvestment in jobs, health, education, and other vital services, but it also has harmed our economy in the short- and long-terms.

This report shows that state budget cuts implemented by Illinois lawmakers have cost Illinoisans jobs when jobs are needed most. It should remind our lawmakers that the cost of budget cuts is too high — and that it's time to raise adequate revenue instead.



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GROWING ECONOMIC INEQUITY AND THE GREAT RECESSION

A spike in economic inequality preceded the Great Recession. By 2007, the country's top 10 percent of earners controlled 50 percent of total income, exceeding even the concentration of income in the late 1920s.² Such growing inequality and stagnation reduced the cushion that could have helped families make it through the downturn.

The Great Recession caused the biggest job loss of any postwar economic downturn, with high unemployment persisting.³ As of 2009, foreclosures were projected to cost 92 million neighboring homeowners across the country an average \$20,300 in property value loss over the 2009 to 2012 period, with a total national loss estimated at \$1.86 trillion.⁴

The recession has hit communities of color especially hard. From 2007 to 2009, Black and Latino borrowers, respectively, were 76 and 71 percent more likely than whites to experience foreclosure.⁵ Income loss for the median African American family was double that for white families — a 4.4 percent versus 1.6 percent decline in real median income.⁶

Across the country, state lawmakers have chosen cuts over raising adequate revenue. Illinois lawmakers have also prioritized cuts. While the Legislature did pass a revenue package, the package fell short, and the Legislature also slashed funding to nearly every category of general fund spending.⁷ And, despite projected future shortfalls, the Legislature is considering rolling back the corporate tax rate, which would add another \$770 million to the revenue gap.⁸

Meanwhile, Illinois' tax system historically has let the state's wealthiest residents off the hook for contributing to a prosperous economy from which all can benefit. As of 2009, an Illinois family in the middle fifth of income-earners paid 10.1 percent of their income and the poorest families in the state paid the greatest portion of their income toward state and local taxes, at 13 percent, after federal offsets. Meanwhile, the top 1 percent of Illinois income-earners, who make an average of \$2.1 million, paid just 4.1 percent.⁹

THE RIPPLE EFFECT OF BUDGET CUTS

Cuts to state budgets ripple throughout the economy. Public sector and nonprofit workers who lose their jobs, experience furlough, or have their wages frozen have less discretionary income to spend at local businesses. The same is true with individuals who have their benefits cut or businesses that lose income from government contracts.

The cuts are then felt by Main Street and others businesses that suffer from suppressed demand and consumption. With fewer customers and less revenue, these businesses refrain from hiring new workers, or they have to cut employees or their hours. In other words, the decline in public spending ripples in the private sector and harms economic activity and jobs.

METHODOLOGY

This report uses a linear regression analysis to compare expenditure and unemployment data in Illinois. The data, which focuses on general fund spending, is taken from the National Association of State Budget Officers' annual expenditure report. This data has been controlled for both population and inflation.

The regression analysis, using a six-month time lag, shows the impact of changes in state general fund spending on unemployment. Specifically, the variables we compare are percent changes in year-to-year, inflation-adjusted, per capita general fund spending with the percent changes in the year-to-year unemployment rate.

THE COST IN JOBS

Illinois lawmakers have cut spending by 27 percent, or \$554, per capita since 2009. This reduction has hurt the employment picture in Illinois. The impact is large, with a 1 percent cut in state spending associated with 6,230 lost jobs.

In 2010, Illinoisans experienced a 10.2 percent unemployment rate. Communities of color have been particularly hard-hit by the decline of the job market, as seen in the U.S. Bureau of Labor Statistics' 2010 unemployment figures. Compared to the state average and whites, at 9.1, African Americans and Latinos in Illinois have significantly higher unemployment rates, at 17.8 and 12.7, respectively.

RECOMMENDATIONS

The answer to our economic difficulties is not more budget cuts. This disinvestment in schools, health care, infrastructure, and not-for-profit and public institutions is taking a toll on families and communities. It is also harming the economy and the job market.

Illinois lawmakers should reverse this course of disinvestment and commit to building a prosperous future for all Illinois families, including a robust job market that supports Main Street businesses and overall community development. Lawmakers should develop a stronger, more equitable tax system that demands adequate contributions from corporations and the rich, by:

- Strongly opposing a rollback of the corporate tax rate increase
- Permanently decoupling from federal tax breaks, including bonus depreciation
- Taxing retirement income for high income individuals
- Expanding the sales tax to some consumer services, not business, education, or health care
- Capping the vendor discount on sales taxes
- Ending the single sales factor — corporations should pay taxes on property and salaries, not simply sales in the state
- Creating a progressive income tax



Jobs lost with
1% spending cut

6,230

Unemployment
by race

White: 9.1

Black: 17.8

Latino: 12.7

Total: 10.2

ENDNOTES

- 1 "Quinn plans layoffs, facility closings," *The Chicago Tribune*, September 6, 2011, viewed at: http://articles.chicagotribune.com/2011-09-06/news/ct-met-pat-quinn-illinois-budget-20110906_1_quinn-plans-major-state-employees-union-pat-quinn.
- 2 Emmanuel Saez, *Striking it Richer: The Evolution of Top Incomes in the United States (Update with 2007 estimates)*, August 5, 2009, viewed at: <http://elsa.berkeley.edu/~saez/saez-UStopincomes-2007.pdf>, Figure 1.
- 3 Rebecca Thiess, "The Great Recession's Long Tail: Third Anniversary Underscores Severity of Labor Market Woes," *Economic Policy Institute, Briefing Paper #294*, February 2, 2011, viewed at: <http://www.epi.org/publications/entry/6708/>, p. 2. [Hereinafter Thiess.]
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- 5 Debbie Gruenstein Bocian, Wei Li, & Keith S. Ernst, "Foreclosures by Race and Ethnicity: The Demographics of a Crisis," *Center for Responsible Lending*, June 18, 2010, p. 8.
- 6 Ibid.
- 7 "Analysis of Enacted Illinois FY2012 Budget," *Center for Tax and Budget Accountability*, August 2011, viewed at: http://www.ctbaonline.org/New_Folder/Budget,%20Tax%20and%20Revenue/FINAL%20CTBA%20Enacted%20FY2012%20Budget%20analysis_%20updated%2010.2011.pdf, p. 5.
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- 9 "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," *The Institute on Taxation and Economic Policy*, 3rd Edition, 2009, viewed at: <http://www.itepnet.org/whopays3.pdf>, p. 42.