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MOVING FORWARD

To Counter the Current Recession, Illinois State Government Should Maintain or Enhance Spending—Even if it Means Progressive Tax Increases—Rather Than Cut its Budget

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TO COUNTER THE CURRENT RECESSION, ILLINOIS STATE GOVERNMENT SHOULD MAINTAIN OR ENHANCE SPENDING—EVEN IF IT MEANS PROGRESSIVE TAX INCREASES—RATHER THAN CUT ITS BUDGET

ABOUT CTBA

Founded in 2000, the Center for Tax and Budget Accountability is a non-profit, bi-partisan research and advocacy think tank committed to ensuring that tax, spending and economic policies are fair and just, and promote opportunities for everyone, regardless of economic or social status.

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I. *Short Summary*

Illinois decision makers are confronted with two immense challenges. On the one hand, state government is facing the largest deficit in its history, with published estimates of the hole ranging from $4 billion to $9 billion. At the same time, the U.S. and state economies are suffering through what looks like the worst recession since the Great Depression. How the state elects to resolve its record deficit will have a meaningful impact on the size and duration of the recession in the state's economy. Given this scenario, the state's best hope of growing its economy and countering the recession is to close its deficit by raising taxes progressively and maintaining or expanding spending on services.

II. *Main Findings*

- Illinois state government is facing a significant, multibillion dollar deficit (with published estimates of the deficit ranging from $4 billion - $9 billion), at the same time its economy is suffering through a deep and long lasting national recession that started over 14 months ago, in December, 2007.
- If the state were to close its $4 billion to $9 billion budget deficit by cutting spending, it could cause the state's economy to lose anywhere from 56,893 to 128,008 jobs, thereby worsening the recession and the state's unemployment rate.
- If Illinois state government desires to create jobs and counter the deepening recession, its best option for eliminating the deficit is to raise taxes progressively, and maintain or enhance total spending.
- If state government chooses the option to maintain or enhance spending, it could maintain and/or create up to 128,008 jobs, potentially shorten the recession in Illinois by over six months, and reduce the state's unemployment rate by almost two percentage points (1.9%), based on multipliers created by Mark Zandi, chief economist at Moody's Economy.com.
- Moreover, if the state made additional capital investments in infrastructure, it could expect to generate $1.59 of economic activity for every public dollar spent, potentially creating over 400,000 jobs, many in the high-paying construction industry.
- The economic benefits flowing to the state from infrastructure investments could be increased significantly at no cost to Illinois taxpayers, to the extent federal matching dollars can be leveraged by state investments.

III. *Why Illinois Should Not Cut Spending During a Recession*

The economic recession gripping our nation began in December, 2007.[1] That means it has already lasted 14 months, which is longer than the average length of all recessions in the U.S. since World War II.[2] Not only is the current recession threatening to be the worst downturn since the Great Depression, it also does not appear to have hit bottom yet. The January, 2009, jobs report from the Labor Department revealed that the nation lost almost 600,000 jobs during that month alone, and 3.6 million jobs since the recession started.[3] Moreover, the U.S. Commerce Department initially estimated that our national Gross Domestic Product would decline by 3.8 percent for the final quarter of 2008. Now that the final numbers are in, however, the picture is even worse, with the Commerce Department announcing our GDP actually declined by 6.2 percent during that period.[4]

Prospects for a quick turnaround are dim. The rest of the world, including our major trading partners in Asia and Europe, are entering or experiencing downturns.[5] The problem is so severe that some economists predict the labor market will

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continue to shrink through the middle of 2010.[6] According to Mark Zandi, chief economist at Moody's Economy.com, the nation is "trapped in a very adverse, self-reinforcing cycle. The downturn is intensifying, and likely to intensify further unless policymakers respond aggressively."[7]

This begs the question, what type of policy initiatives should decision makers implement to meet Zandi's urging to "respond aggressively?" The answer from the federal government was to pass President Obama's $787 billion stimulus package. Mark Zandi, who in addition to his work at Moody's Economy.com served as an economic advisor to Senator McCain during McCain's 2008 presidential campaign, predicts that Obama's stimulus package will create 3.8 million jobs, and should result in the nation having an unemployment rate that is two percentage points lower by the midpoint of 2010 than it would have been without the stimulus package.[8]

That is all fine and well for the federal government, which can deficit spend to its heart's content. The question for state government is, how to counter the impact of the recession here in Illinois, given it faces one major constraint the federal government does not—the mandate of a balanced budget?[9] Moreover, it is not like Illinois has a lot of extra revenue at its disposal to use for a stimulus. Quite the contrary, in the current fiscal year 2009, Illinois is looking at a revenue shortfall of at least $4 billion,[10] and may have a deficit that exceeds $9 billion by 2010.[11] Illinois surely can not expect state revenue growth to come to the rescue, far from it. Even in the best economic times, Illinois' poorly structured fiscal system fails to generate enough revenue growth to sustain the same level of public services from one year to the next. In fact, this "structural deficit" (as illustrated in Figure 1), is the main reason the state has been unable to balance its budget for decades.

Figure 1

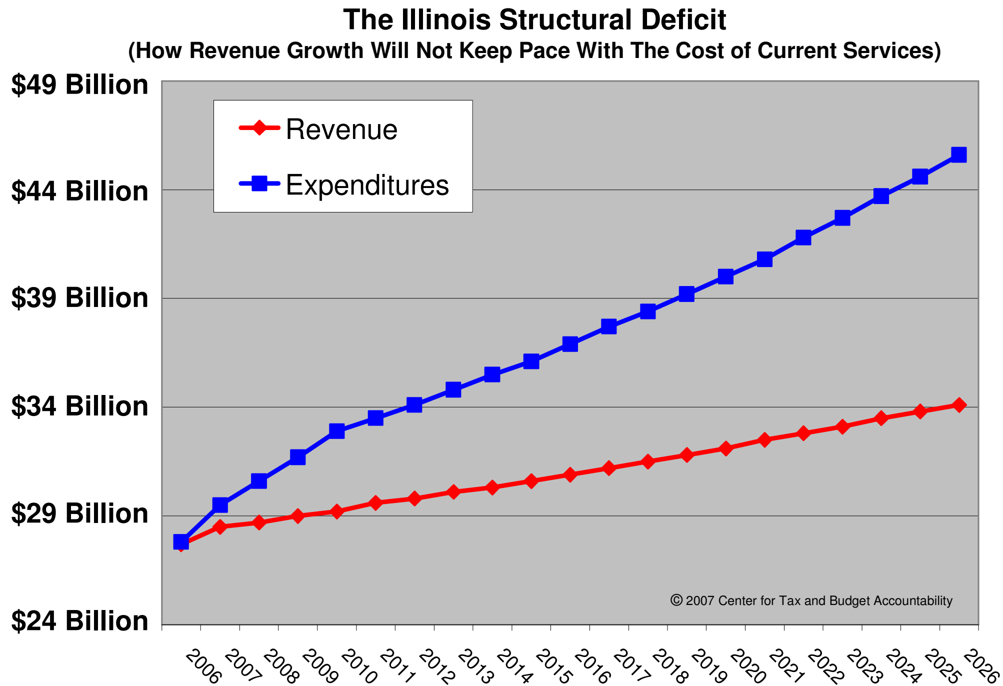

Figure 1 projects future expenditures and costs by adjusting solely for historic rates of inflation and population growth. The projection further assumes: a balanced budget in FY2006 (the state actually had a deficit of almost $2.5 billion); normal economic growth based on historic trends; and continuation solely of existing law—that is, no new programs are passed and no existing services are expanded—Illinois just continues to provide the same level of services that were authorized in FY2006 into the future.

The state's ongoing deficit and fiscal shortcomings present the following quandary to Governor Quinn and the General Assembly: during a significant economic downturn, should Illinois close its budget gap by cutting spending—at the very

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time when demand for public services is growing—or by raising tax revenue and maintaining or enhancing spending, or by some combination thereof?

Some policymakers feel the best way to eliminate the state's deficit is simply to cut spending, as opposed to raising taxes. This probably sounds like it makes sense. After all, if the state is spending too much money and is in debt, why not just spend less money. The problem with that reasoning is that such an approach would likely worsen the recession in Illinois, costing the state thousands of lost jobs.

In fact, there is relatively strong consensus that state governments that cut spending during a recession are making a huge mistake, that will set their economies back further.[12] Raising revenues in a progressive fashion, on the other hand, and maintaining or enhancing state spending is the best choice to counter recessionary cycles and generate job growth. The reasoning behind this is actually easy to understand. During a recession, the economy is already contracting. Cutting state government spending takes even more money out of local economies, worsening both the recession and job loss.[13] No one makes this point more clearly or articulately than Nobel prize winning economist Joseph Stiglitz, currently an economics professor at Columbia University.

Stiglitz pointed out that "in a recession, you want to raise (or not decrease) the level of total spending by households, businesses and government in the economy. That keeps people employed and buying things."[14] Simply stated, budget cuts reduce spending in the local economy, while state and local government spending boost it.

In a recent letter he sent to Governor Paterson of New York, Stiglitz emphasized the importance of state spending to counter recessions. Among other things, Stiglitz used his letter to advise New York's elected officials that, "When faced with such an unpleasant choice, economic theory and evidence give a clear and unambiguous answer: it is economically preferable to raise taxes on those with high incomes than to cut state expenditures."[15]

The reason progressive tax increases work better during a recession than spending cuts becomes clear, once you consider an individual's or family's "Marginal Propensity to Consume" or "MPC". "Marginal Propensity to Consume" simply measures the likelihood that a particular individual, given his or her overall income level, will choose to save or spend when they receive additional income.[16] Wealthy individuals have a lower MPC than other individuals, meaning they spend less of their overall income on consumption, and save more. Raising taxes on the affluent will therefore generally result in them saving less money, but with little to no change in their consumption patterns. This is another point Stiglitz emphasized in his letter to the governor of New York, noting that although raising taxes on high income households may reduce spending some, it will certainly be less than the amount of the tax increase "since those with plenty of income typically spend only a fraction of their income—and some of what they spend is on luxury goods made abroad."[17] So, even though affluent individuals will have less money following a tax increase focused on them, there will not be a dollar-for-dollar loss in the economy. ***A state budget cut, however, would result in a dollar-for-dollar loss in economic activity***.

In contrast, low income persons have a high MPC, so any reduction in transfer payments to them (like unemployment insurance, food stamps or TANF benefits, for example), or increases in taxes they pay, is likely to result in lower levels of consumption. These families simply do not earn enough money to save, so if they have less money coming in, due to tax increases or transfer reductions, they generally spend less money in the economy, period. It follows then, that reductions in transfer payments, or raising taxes on lower income individuals, would have *more harmful* effects than raising taxes on the wealthy. Since those families who receive transfer payments (food stamps, unemployment insurance, etc.) typically spend almost all their income, the negative impacts of a reduction in transfer payments could be as harmful as a direct reduction in government spending, and should be avoided.

Making the state's tax increase progressive is particularly important in Illinois, which has one of the most regressive, that is, unfair, tax systems in the nation.[18] As Figure 2 shows, Illinois places a significantly greater tax burden on low and middle income families than on affluent families when tax burden is measured as a percentage of income. Describing Illinois' fiscal system as unfair because it is regressive is not as controversial as it seems. Sure, tax policy is by its nature a contentious subject. In the end, individuals pay different proportions of their incomes in taxes to fund public services—and a completely different matrix of individuals use those services. Given this dichotomy, establishing a definition of what constitutes the most fair way to tax seems difficult.

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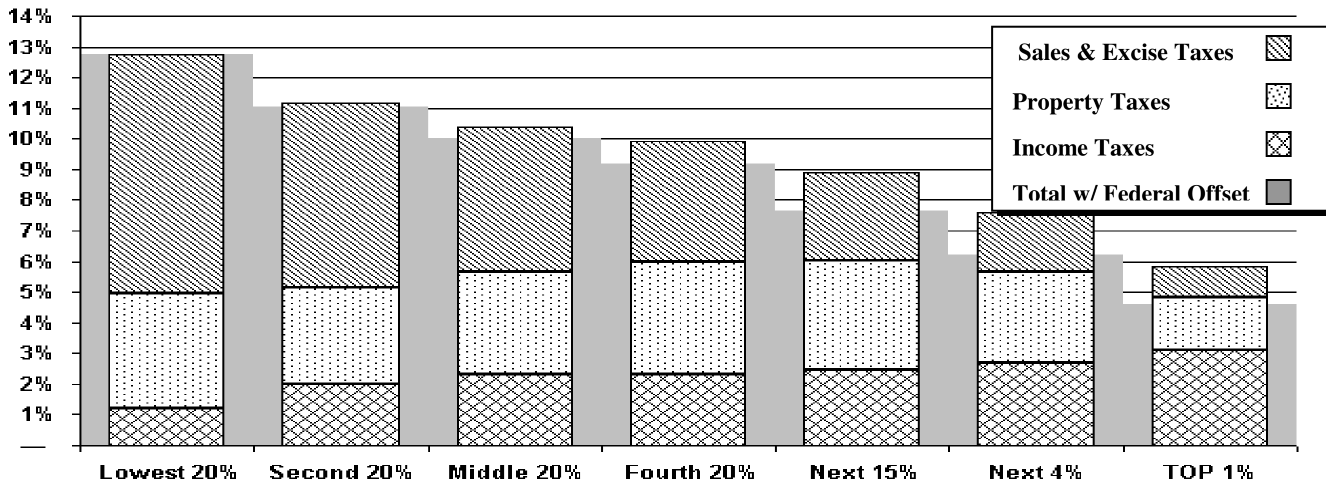
Figure 2
State and Local Tax Burden as a Percentage of Income
(Source: Institute on Taxation and Economic Policy)



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	Top 1%
Income Range	Less than $16,000	$16,000 – $30,000	$30,000 – $48,000	$48,000 – $77,000	$77,000 – $148,000	$148,000- $295,000	$295,000 or more
Average Income in Group	$8,900	$22,600	$38,500	$61,100	$101,000	$204,000	$1,322,000
TOTAL TAXES	12.8%	11.2%	10.4%	9.9%	8.9%	7.6%	5.8%
Federal Deduction Offset	–0.0%	–0.2%	–0.4%	–0.7%	–1.2%	–1.4%	–1.2%
TOTAL AFTER OFFSET	**12.7%**	**11.0%**	**10.0%**	**9.2%**	**7.7%**	**6.2%**	**4.6%**

Fortunately, there is a well settled definition of what constitutes fair taxation, at least in a capitalist society. According to Adam Smith, the father of modern capitalism, a fair tax system is a progressive system, i.e., one that imposes a greater tax burden on affluent, than middle or low income taxpayers, when tax burden is measured as a percentage of income. In his seminal work, the Wealth of Nations, Smith explained the rationale for reaching this conclusion. He contended that under capitalism, affluent income classes will always benefit disproportionately from economic expansion. Since the greatest benefits of the system inure to upper income classes, fairness dictates they ought to have the greatest tax burdens, to support the government that delivers such economic benefits to them. According to Smith:

"The subjects of every state ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state ….As Henry Home (Lorde Kames) has written, a goal of taxation should be to 'remedy inequality of riches as much as possible, by relieving the poor and burdening the rich.'"[19]

Was Adam Smith right? A review of Illinois' economic performance over the last three decades demonstrates that his reasoning was on target. The vast majority of growth in the Illinois economy since 1980 went to the wealthiest 10% of taxpayers. In fact, the bottom 40% of income earners in Illinois actually took home less money on an inflation-adjusted basis in 2005 than they did in 1980.[20]

In light of what has really transpired in our economy, it is easy to understand why a progressive tax system is fair, and a regressive tax system would be considered unfair. In simple terms, low- and middle-income families are realizing either declining or stagnant real incomes over time, while affluent families are realizing significant real income growth.

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IV The Multiplier Effect

So, how exactly could Illinois benefit by taking the approach recommended by Stiglitz, and maintaining spending through progressive tax increases? Fortunately, Mark Zandi has developed a simple metric for determining how certain public expenditures create an economic multiplier that actually generates more than a dollar-for-dollar benefit as those public expenditures move through a state's economy.

An economic multiplier, defined by economics textbooks such as Dornbusch and Fischer's *Macroeconomics*, is "the amount by which output changes when autonomous aggregate demand increases by one unit."[21] OK, what does that mean? The definition may sound arcane, but what happens is very straightforward. Say state government invests in a new road or in bridge construction. State government initially stimulates the economy by making a direct payment to contractors, construction workers, etc. for work and economic activity that otherwise would not take place. As these individuals then spend some of the money they earn from the state on other purchases in the economy, such as food, clothing or car repairs, a portion of the initial state investment made on construction becomes additional purchases in other sectors. One person's spending becomes another individual's income, who in turn spends that income again on other purchases in the local economy, and so on.

Mark Zandi of Moody's.com modeled how this multiplier effect works for different types of public spending, as detailed in Figure 3. Although Zandi's data is from January 2008, it has been used as recently as January 2009, in testimony before the US Congress, by economists including Zandi himself, Stiglitz, Peter Orszag of the Brookings Institute, and Nicholas Johnson of the Center on Budget and Policy Priorities.[22]

Figure 3

Government Action	
Tax Cuts	**Associated Multiplier**
Non-Refundable lump-sum tax rebate	1.02
Refundable lump-sum tax rebate	1.26
Temporary Tax Cuts	
Payroll Tax Holiday	1.29
Across the board tax cut	1.03
Accelerated Depreciation	0.27
Permanent Tax Cuts	
Extend alternative minimum tax patch	0.48
Make Bush income tax cuts permanent	0.29
Make dividend/cap gains tax cuts permanent	0.37
Cut in corporate tax rate	0.30
Spending Increases	
Extending Unemployment Insurance Benefits	1.64
Temporary increase in food stamps	1.73
General aid to state governments (for spending on items such as education, public safety, health and human services)	1.36
Increased infrastructure spending	1.59

As Figure 3 clearly illustrates, the largest economic 'bang for the buck' comes from spending increases, not tax cuts. Moreover, it is pretty clear that tax cuts, at any level, reduce the revenues coming into government. Given the size of the deficit the state already faces, this is hardly a point in time when Illinois can afford to realize further revenue loss. As the

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multiplier effects outlined above demonstrate, maintaining or increasing state spending has the greatest potential to produce the largest gains for Illinois' overall economy.

Authorizing an extension of unemployment benefits and a temporary increase in food stamps are, as Zandi states, "the most effective way to prime the economy's pump." This is because the people who receive these transfer payments are already hard-pressed financially, and will almost immediately spend any additional aid they receive directly in the local economy. Investments in education, health and human services will also pay off handsomely, generating $1.36 of economic activity for every taxpayer dollar spent.

The flip side of Zandi's multipliers are the potential negative impacts of cutting state spending. In other words, if making $4 billion in expenditures on critical services such as education, healthcare and human services can be expected to generate a positive multiplier of 1.36 (that is, for every dollar spent by the state, Illinois' economy gets a benefit of $1.36), then balancing the budget by cutting that amount of spending would hurt the economy by a similar multiple. The Center for Economic and Policy Research (**"CEPR"**), a national think tank, devised a method of applying Zandi's multipliers to state economies, to determine the potential job impact of state government maintaining or cutting spending.[23]

Figures 4 and 5 show what the potential job impacts could be in Illinois if our state government elected to balance its budget deficit through spending cuts, versus raising taxes (progressively). Note that the estimated budget shortfall amounts cover the range of estimates put forward by everyone from the Governor, to the Comptroller, Commission on Government Forecasting and Accountability and state GOP in recent months.

Figure 4

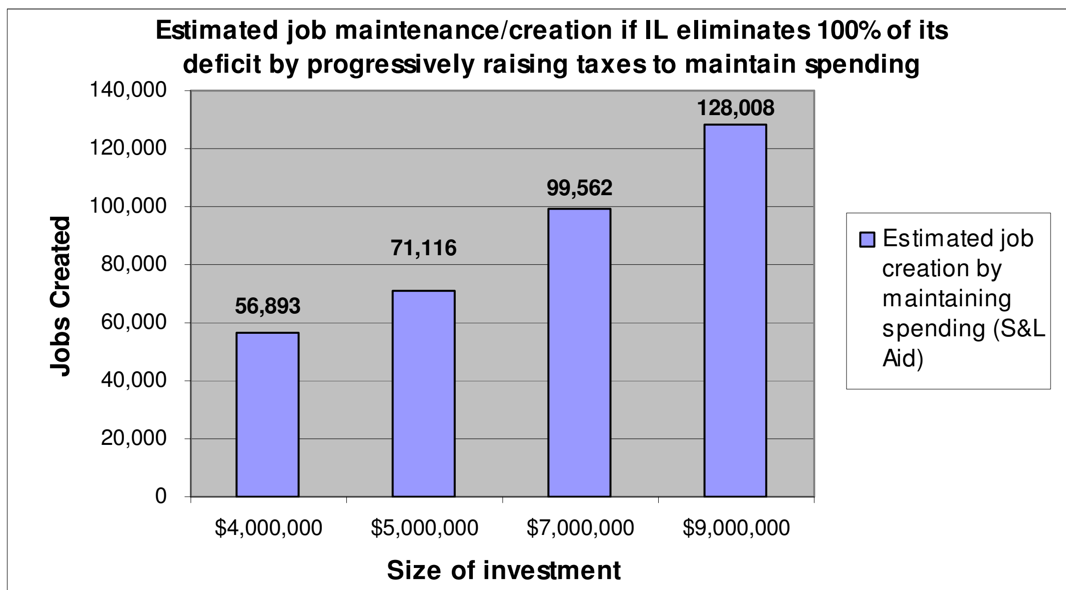

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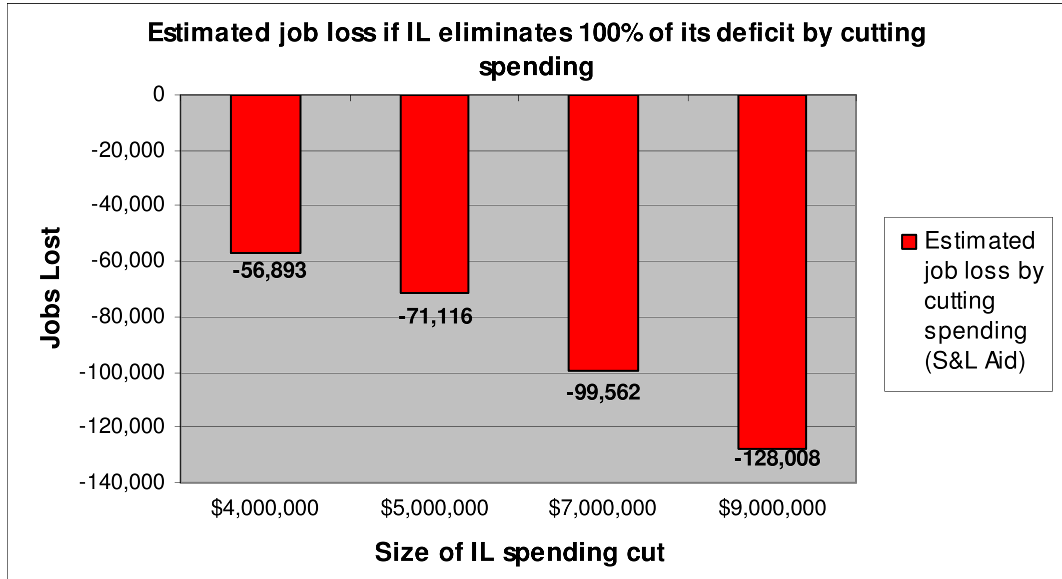
Figure 5



Note the potentially devastating economic impact of spending cuts that is illustrated in Figure 5. If, as Comptroller Hynes estimates, the state's deficit falls in the $9 billion range, then balancing the budget through spending cuts could cause the state to lose up to 128,008 jobs—during a recession. Such an outcome would be hard to justify, especially since Illinois already lost 243,000 jobs in the one year period from December 2007 (the beginning of the recession) through the end of December 2008.[24] A budget cut of that magnitude could cause Illinois job loss to worsen by over 52 percent!

On the positive side, if the state instead closed its budget gap by raising revenue (progressively) to invest in public services, Illinois could see 128,008 jobs maintained or created, potentially shortening the state's recession by over six months, and cutting its unemployment rate by just under two percentage points (1.93%).[25] This could effectively produce the same positive reduction in the unemployment rate for Illinois that Zandi predicts the federal stimulus will generate for the nation.

V Doing More—How Capital Investments will Grow Illinois' Economy

The state of Illinois has not passed a capital program in over seven years. Meanwhile, as the national and state economies continue to erode, so too does Illinois' infrastructure. Raising just over $1 billion in recurring, state-based revenue in a progressive fashion, would finance a state bond program of around $13 billion, which in turn, through federal match and other local initiatives, could leverage another $12 billion in local and federal spending for capital projects for the state.[26] That means Illinois could implement a $25 billion capital program if the state were to develop the approximately $1.2 billion in recurring revenue to fund it.

Using Zandi's multiplier of 1.59 for public investments in infrastructure, a capital program at that level would generate almost $40 billion in economic activity at the state level. This would have a major impact on employment in Illinois, with the potential to create up to 415,713 jobs.[27] Moreover, many of those jobs would be in construction, one of the highest paying sectors in the Illinois economy.[28]

One concern that is frequently voiced about infrastructure spending is that it will not occur quickly enough to have the fully intended stimulative impact. That is because few capital projects are "shovel ready", and therefore require months of planning before construction actually begins. By that time, the economy could have turned around.

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While generally this is a legitimate concern, it really only becomes a problem if the recession will be short lived.[29] If, on the other hand the recession is likely to be longer running, this particular timing drawback is not pertinent.[30] As previously indicated, the current recession is projected, unfortunately, to be one that will be quite lengthy in duration, effectively nullifying this concern.

Currently, the legislature is considering at least three pieces of legislation that would finance capital projects. The first, House Bill 1, was introduced by Representative John Bradley (D-117). It would raise the gasoline tax by eight cents per gallon. This would generate $500 million in annual revenue, that would be used to underwrite $5.9 billion in bonds to fund road, bridge, transit and other transportation related investments. True, excise taxes like a gasoline tax are generally regressive, so the bill would have to be partnered with tax relief targeted to low and middle income families, like expanding the state's Earned Income Tax Credit. With that accomplished, Zandi's 1.59 multiplier for the $5.9 billion transportation/infrastructure program outlined in HB1 could generate about $9.4 billion in economic activity in Illinois, and create about 98,108 jobs, many of which will be in the high paying construction sector.

The potential positive economic impact of HB1 could be even greater. For the last few years, Illinois has left federal dollars targeted to funding transit, bridge and similar infrastructure projects on the table, due to the state's failure to raise revenue that would qualify for various federal matching programs. If the state were to receive, say, a 50 percent federal match on the revenue raised under HB1, it could effectively double the positive job growth (196,218 new jobs) at half the cost in state tax dollars.

The current versions of House Bill 855 introduced by Representative David E. Miller (D-29) and Senate Bill 750 introduced by Reverend Senator James T. Meeks (D-15), would fund the larger, $25 billion infrastructure investment program discussed above.

VI *Raising Revenue Progressively*

As it turns out, Illinois decision makers are presented with a fortunate turn of events when it comes to responding to the current economic crisis, for two reasons. First, Illinois' struggles are coming at the very time the federal government is offering significant financial support to the states. The Federal American Recovery and Investment Act of 2009 (or federal stimulus bill) will provide Illinois with financial assistance to close a portion of the state's estimated $9 billion deficit. Under the stimulus package, Illinois can expect to receive approximately $2.935 billion from the federal government in time to help close the gap in the current fiscal year 2009 budget. Of that $2.935 billion, $880 million must go toward paying the $2.2 billion in back logged bills owed to Medicaid providers. Another $1.681 billion must be used to maintain K-12 and higher education spending, and the remaining $374 million can be used to avert budget cuts in education or in other basic state services. After accounting for the $2.935 billion from the federal stimulus, state lawmakers must essentially raise up to $6 billion in revenue to close the current budget deficit.

Second, the very same fiscal policies that will help counter the recession and grow the state's economy, happen to coincide precisely with the only real, sustainable solutions to the state's ongoing, long-term deficit problems. Simply put, modernizing the state's tax system so it grows with the economy and is not overly reliant on low and middle income families, will both help create jobs and pull Illinois out of the recession in the short term, while promoting the long-term fiscal health and solvency of the state. Even more fortuitous, the federal stimulus money, although non-recurring, will come in relatively soon, thereby bridging some of the gap between the time tax reform passes and the new revenue actually starts to come in.

Attaining the tax modernization required to fulfill the twin objectives of countering the recession and making the state more fiscally sound will require three simple elements: (i) an income tax rate increase; (ii) a broadening of the state's sales tax base to include consumer services; and (iii) targeted tax relief to low and middle income families.

The income tax is inherently the most fair of all taxes because it is the only one that actually increases or decreases the burden it places on a taxpayer in accordance with that taxpayer's ability to pay. If a taxpayer receives a raise, her income tax liability will increase. If on the other hand she loses her job, her income tax liability will decrease. No other tax adjusts its burden in accordance with a taxpayer's ability to pay.

Moreover, since an income tax can have a progressive rate structure—that it, impose slightly higher tax rates on individuals with higher incomes—a well designed, progressive income tax can actually help make a state's overall tax

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burden fair—or at least fairer than it would be without a progressive rate structure. The Illinois Constitution, however, prohibits lawmakers from setting marginal rates at different levels for different income classes, because it mandates a flat tax rate across all income brackets.[31]

This constitutional constraint can be addressed in a number of ways. The first and most direct would be an amendment to the Illinois Constitution that permits utilization of a progressive rate structure in the state's income tax. But the constitutional amendment process is time consuming—and the Illinois tax system is unfairly regressive right now, while the need to raise revenue to counter the recession is also immediate.

A second approach, which should be pursued contemporaneously with a constitutional amendment, is using existing tax structures, like refundable credits and the dependent exemption, to create a more fair tax system today. For instance, the dollar value of the personal and dependent exemptions could be increased for low and middle income taxpayers, and reduced for higher income brackets.

While the aforesaid "reverse graduation" of these exemptions would create some progressivity—it would not get to the heart of tax burden for low and middle income families—who are hit hardest by payroll, excise, property and sales taxes. Moreover, to modernize Illinois' tax system, make state revenue generation more stable, and ultimately to eliminate the structural deficit detailed in Figure 1, the state's sales tax base has to be broadened to include consumer services. That's because the service sector is the largest and fastest growing segment of the Illinois economy—accounting for over 60% of all economic activity in the state[32]—and Illinois' sales tax (actually called the Retailers Occupation and Use Tax) for the most part does not include services. Instead, the Illinois sales tax applies predominantly to the sale of goods, which represents just 12% of the economic activity in Illinois today, down from 32% in 1965. The state simply cannot leave the largest and fastest growing segment of its economy out of its tax base and have a revenue system that will work in a modern economy.

That said, sales taxes are generally regressive. So, while a sales tax base expansion is an essential reform from a sound tax policy standpoint—it has the potential to make the state's currently regressive tax system even worse. Refundable tax credits targeted to low and middle income families would be the most efficient policy solution to address the regressive tax burden problems associated with sales taxes, including any sales tax base expansion needed to modernize the Illinois system.

A "refundable" tax credit is one that allows a taxpayer to receive the full dollar value of the credit, even if the credit is greater than the taxpayer's total income tax liability. This is effective because it offsets those taxes other than the income tax (like sales and payroll) that create the greatest burden for low and middle income families. Examples of refundable credits include the state and federal Earned Income Tax Credits and the Family Tax Credit included in Senate Bill 750 and House Bill 855.

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[12] Joseph Stiglitz – "Letter to Governor David A. Paterson," March 2008, Columbia University Business School; Lawrence Mishel & Heidi Shierholz – "Without Adequate Public Spending, A Catastrophic Recession for Some," January 2009, Economic Policy Institute, www.epi.org; Faiz Shakir et al – "Right Wing Myths About The Stimulus," January 2009, The Progress Report, www.thinkprogress.org; Nicholas Johnson – "Budget Cuts or Tax Increases at the State Level: Which is preferable during a recession?" January 2009, Center on Budget and Policy Priorities, www.cbpp.org; Josephine B. Valle – "The Multiplier Effect Explained," December 2008, Business World Research, www.bworldonline.com
[13] Matthew Sherman – "The Effect of Budget Belt Tightening on Employment," December 2008, Center for Economic and Policy Research, www.cepr.net.
[14] Joseph Stiglitz – "Letter to Governor David A. Paterson," March 2008, Columbia University Business School
[15] Joseph Stiglitz – "Letter to Governor David A. Paterson," March 2008, Columbia University Business School
[16] J. Bradford DeLong – "The Size of the Multiplier and the Marginal Propensity to Consume," March 1998, UC Berkeley, Department of Economics. http://econ161.berkeley.edu/multimedia/Size_Multiplier.html
[17] Joseph Stiglitz – "Letter to Governor David A. Paterson," March 2008, Columbia University Business School
[18] Institute on Taxation and Economic Policy, Balancing Act: Choice for Illinois Tax Reform, February, 2006.
[19] Smith, Adam. The Wealth of Nations. Bantam Dell, New York, 2003, pg. 1043
[20] Center for Tax and Budget Accountability. 2005. "Analysis of United State Census Bureau, Current Population Survey." Data provided by the Economic Policy Institute, www.epi.org
[21] Multiplier Effect Defined: http://www.investorglossary.com/multiplier-effect.htm
[22] Joseph Stiglitz – "Letter to Governor David A. Paterson," March 2008, Columbia University Business School; Lawrence Mishel & Heidi Shierholz – "Without Adequate Public Spending, A Catastrophic Recession for Some," January 2009, Economic Policy Institute, www.epi.org; Faiz Shakir et al – "Right Wing Myths About The Stimulus," January 2009, The Progress Report, www.thinkprogress.org; Nicholas Johnson – "Budget Cuts or Tax Increases at the State Level: Which is preferable during a recession?" January 2009, Center on Budget and Policy Priorities, www.cbpp.org; Josephine B. Valle – "The Multiplier Effect Explained," December 2008, Business World Research, www.bworldonline.com
[23] Matthew Sherman – "The Effect of Budget Belt Tightening on Employment," December 2008, Center for Economic and Policy Research, www.cepr.net. To obtain this calculation, CEPR looked at the economic effect of closing a state's fiscal shortfall with budget cuts, proportional to that state's gross domestic product. Assuming employment is proportional to GDP, CEPR took the ratio of economic effect to GDP, and multiplied it by total employment in the given state.

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[24] IL Department of Employment Security. Difference is between Gross IL Employment, on December 2007 and on December 2008. http://www.ides.state.il.us

[25] The rationale for the two percent reduction in the unemployment level comes from the potential maintained/new job total of 128,008 which represents approximately 2 (1.9%) percent of the overall IL labor force of approximately 6,636,000. Moreover, from December, 2008, through December, 2009, Illinois lost jobs at the rate of 20,250 per month. Therefore, creating or maintaining 128,008 jobs that otherwise would not exist or be lost, has the potential to shorten the recession by six months (that is 128,008 ÷ 20,250 = 6.32), if job loss continues at that monthly rate.

[26] Illinois Works, the FY 2009 Capital Plan available at <http://www.state.il.us/budget/FY%202009%20Capital%20Budget%20Book%20v2.pdf>

[27] The 415,713 job projection assumes no substitution, that is, state funded capital projects do not substitute for or replace other construction jobs that would have been generated by normal economic expansion. Given that we are experiencing economic contraction, the impact of public sector expenditures on capital should have minimal substitution issues.

[28] State of Working Illinois 2008, Northern Illinois University and the Center for Tax and Budget Accountability, Figure 1, page 12

[29] Menzie Chin, October 2008. "Pocketful of Multipliers (II) : Options for Stimulus Packages. " RGE Monitor. http://www.econbrowser.com/archives/2008/10/pocketfull_of_m.html

[30] Menzie Chin, October 2008. "Pocketful of Multipliers (II) : Options for Stimulus Packages. " RGE Monitor. http://www.econbrowser.com/archives/2008/10/pocketfull_of_m.html

[31] Illinois Constitution Article IX, Section 3

[32] Center for Tax and Budget Accountability analysis of 2002 United States Economic Census data updated to 2009 using United States Bureau of Labor Statistics Consumer Price Index for all Urban Consumers.

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