

A wide-angle photograph of the Chicago skyline as seen from the water of Lake Michigan. The sky is clear and blue. The water in the foreground is rippled and reflects the light. A sandy beach with several people is visible in the middle ground. The skyscrapers of the city are prominent in the background.

Keeping Illinois Competitive

Prosperity in the Prairie State

Did You Know?

- From 1990 to 2006, Missouri, Indiana, Iowa, Wisconsin, and Minnesota all saw their economies grow faster than the Illinois economy. In recent years, all of those states have added private sector jobs at a faster rate than Illinois has.
- Illinois state and local governments owe a whopping \$106.9 billion, equal to \$8,330 for every man, woman and child in the state.
- According to the U.S. Census Bureau, Illinois local government owes \$57 billion and the state owes nearly \$50 billion. A more realistic estimate of state debt by the Civic Committee taking pension and health care liabilities into account is \$106 billion.
- The Illinois state debt has increased from an inflation-adjusted total of \$15 billion in 1980 to almost \$50 billion in 2005, an increase of 224%.
- The American Medical Association identified Illinois as one of 17 states facing a medical crisis due to an excessively litigious atmosphere, the legal climate was ranked 46th in America by the Institute for Legal Reform.
- The Illinois public school system spends roughly \$9,900 for every child.
- Illinoisans have the seventh highest property tax burden as a percentage of home values in the country.
- Illinois is ranked 36th out of 50 states for quality of healthcare by the Commonwealth Funds State Health Care Rankings.

The Prairie State was once one of the most economically vibrant and dominant in the country.

Illinois's government is in trouble. Debt and expenditures are increasing while the economy and population are growing at a slower rate compared to many neighboring states.

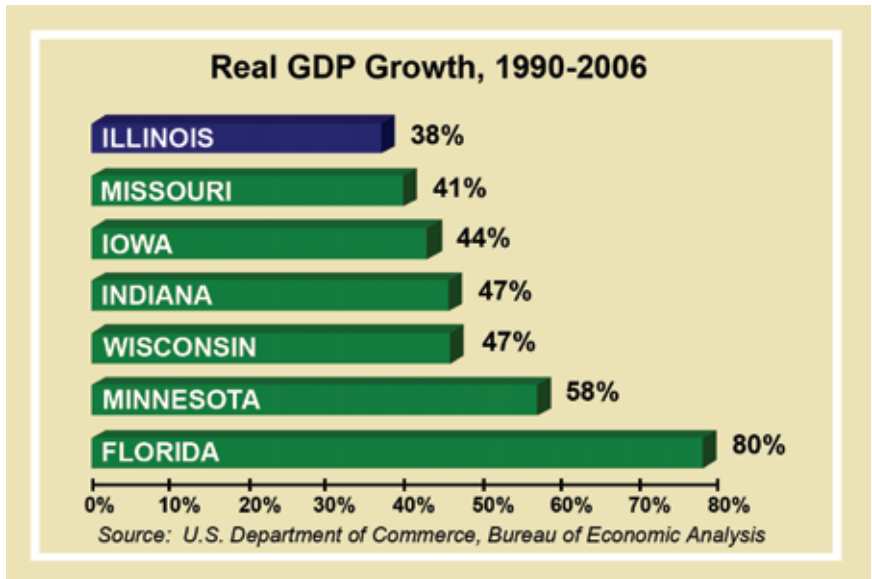
The Illinois education and healthcare system are in need of substantial reform. The future prosperity of our state depends on a successful education system and health care reforms that allow for competition and don't further hamper the wealth creation process.

- How can we restore Illinois's economic success?
- How can we improve the workings of our state government?
- How can we compete and bring prosperity to our citizens?



How Do We Compare?

The best way to measure a state's prosperity is to calculate the value of all the goods and services produced within the state. This is measured for states in the same way it is for the national economy, in Gross Domestic Product, or GDP.



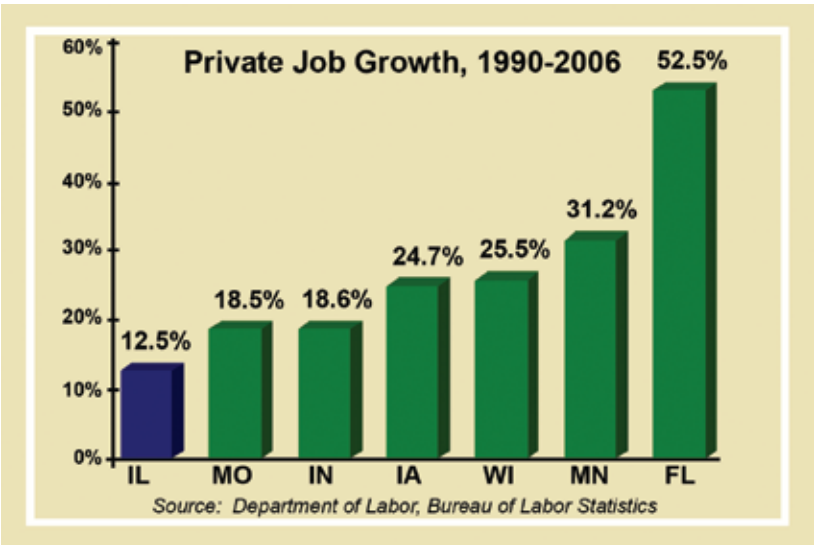
As the chart shows, Illinois's economy has grown, but at a slower rate than its neighbors and half as fast as Florida, a state with the same size economy in 1990. Over the course of the last 16 years, Florida has experienced twice—and often three times—the growth in Illinois.

Another way to measure the economic situation in a state is to look at population growth. A state's population usually grows relative to other states when it provides a welcoming environment for people to live, work, and start businesses.

Illinois was once a very popular state but is currently lagging behind most of its neighbors in a region that lags behind the national average.



Some factors that affect population growth, such as climate and geographic features, lie beyond the control of individuals and lawmakers, but lawmakers are responsible for taxes, government spending, and the intrusiveness of government regulation, all of which have a major impact on where people choose to live.

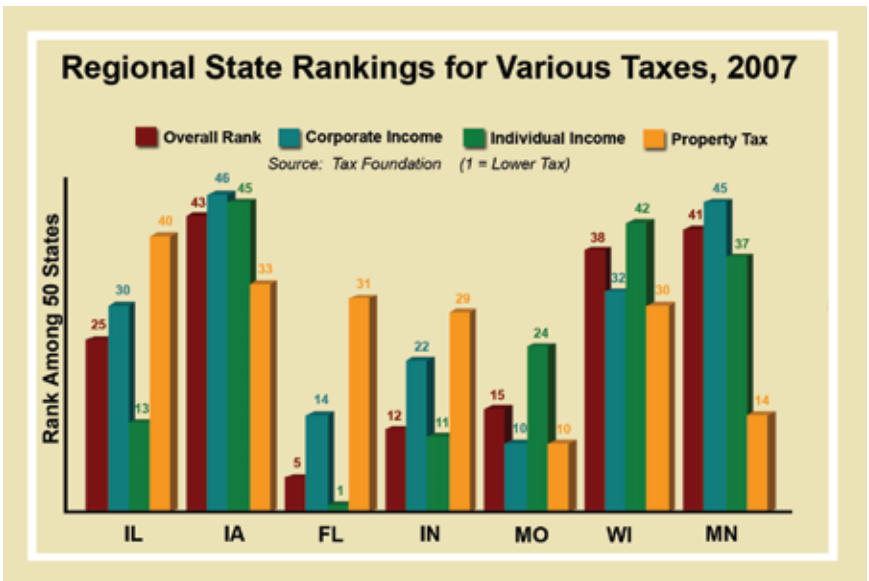


Job growth is an important indicator of the strength of the economy. The economy in Illinois is burdened and is not growing or creating as many jobs as most other states. Why is it slowing down?

Taxed Out?

High taxes adversely affect a state's economy. All other things being equal, states that have high taxes create less wealth and see lower rates of economic growth.

This chart illustrates that Illinois ranks roughly in the middle of the 50 states. It is significant to note Indiana's relatively good ranking and its surge in population and GDP over the past 16 years compared to the other states in the region.

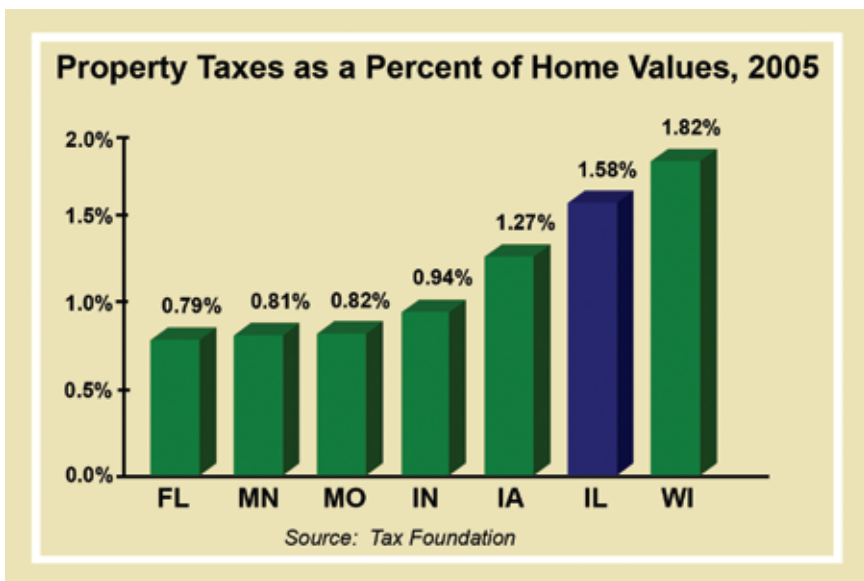


Florida has relatively low corporate taxes to attract businesses and fuel their rapid economic growth.

These rankings matter. Compared to the ten states with the worst tax climates, the ten states with the best tax climates from 2000 to 2005 experienced:

- 44% faster personal income growth
- 115% more new jobs
- 52% faster overall economic growth
- 164% faster population growth

Illinois is roughly in the middle of the pack for business taxes nationwide; however its property taxes are some of the highest in the nation. In 2005, the median property tax bill in Illinois was 1.58% of the median home value. The Prairie State has the second highest property taxes in the region and seventh highest in the nation. These titles are nothing to be proud of, as they make it harder for Illinoisans to own homes and drive people out of the state.



The median property tax payment in Illinois is \$2,904. The tax consumes a median of 4.68% of personal income. Any way you look at it, Illinois places a high tax on personal property which discourages people from living in Illinois.

What Drives Prosperity?

History tells us that respect for the rule of law and protection of private property rights are a formula for prosperity. Let's explore what these ideas mean.

In the American system, respect for the rule of law means that governments must operate within constitutional limits. A government that has respect for the rule of law behaves in a predictable way, allowing businesses and families to plan for and take economic risks without fear of undue interference.

Protections for private property mean that the government won't take away what you own or place onerous restriction on the way you can use it. Private property includes everything you own: your house, your savings, your investments, your car, even the junk you may have lying around your living room.

A government that is dedicated to private property protections and the rule of law respects individual freedom: the right to do what you want—as long as it doesn't harm others—and to enjoy the fruits of your labor. This freedom encourages trade, investment, and wealth creation.

When allowed to make decisions about their own property, people will make a few bad decisions along the way, but on the whole individuals will make better decisions than disconnected government institutions.

People never have complete control of their property—government always takes some of it in taxes. Although government has some role to play in our lives, we should remember that taxes limit freedom.

Every dollar government spends is one that an individual who worked for it cannot spend as he or she wishes. Lower taxes usually lead to a more prosperous society as people wisely use their money.

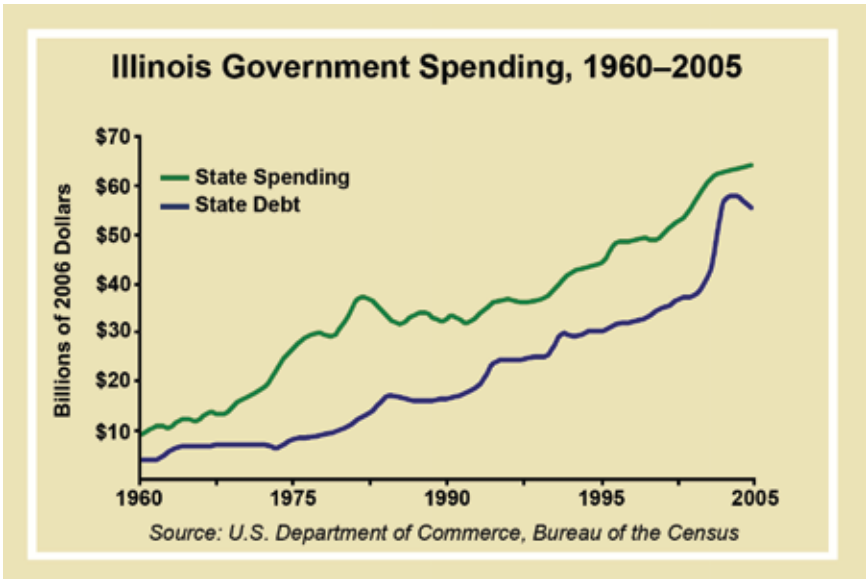


“A wise and frugal government, which shall leave men free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned - this is the sum of good government.”

- Thomas Jefferson

Growth of Government

The graph below charts the growth of Illinois's state government spending and debt.



Since 1960, adjusted for inflation, state government spending has increased by 589%, and state government debt has grown by 982%.

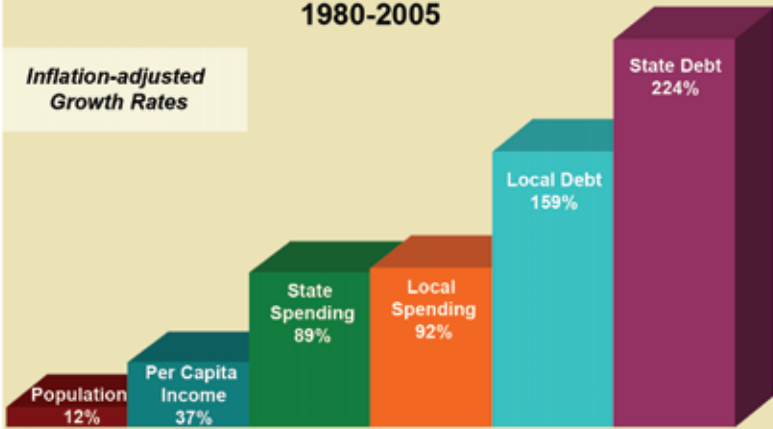
While increased population accounts for some of the increase in spending, it cannot fully explain the explosive growth in the size of Illinois government.

Local governments have also increased spending at an unsustainable rate. Between 1980 and 2005, local government spending, adjusted for inflation, increased an astonishing 92% while local debt increased by 159%. The population is barely growing, and the economy is receding while the government is rapidly expanding.

The explosion in state spending and debt is astounding. In 1980, state debt was barely over \$15 billion in inflation-adjusted 2006 dollars, but by 2005 it increased to almost \$50 billion—a 224% increase!

Illinois Government Outgrows the Private Economy, 1980-2005

*Inflation-adjusted
Growth Rates*



Source: U.S. Department of Labor, Bureau of the Census

Local government borrowing is even greater than state debt as local governments owed \$22 billion (in inflation-adjusted 2006 dollars) in 1980 and an incredible \$57 billion in 2005. Illinois state and local governments owe a combined \$106.9 billion which totals a whopping \$8,330 per person.

Debt of that magnitude has its costs. Local governments spent more on interest payments in 2005 than on higher education, fire, and correctional facilities combined.

The Civic Committee of Chicago estimates that the state owes \$106 billion, factoring in pension and healthcare liabilities, but not general bond debt. The debt situation in Illinois is dire.

Illinois is spending money that it doesn't have at a greater and greater pace. Expansive government spending and borrowing perpetuates the cycle of recession and unduly burdens the economy. To promote growth, Illinois must halt this vicious cycle of increased borrowing and debt and lighten the excessive burden we have placed upon businesses.



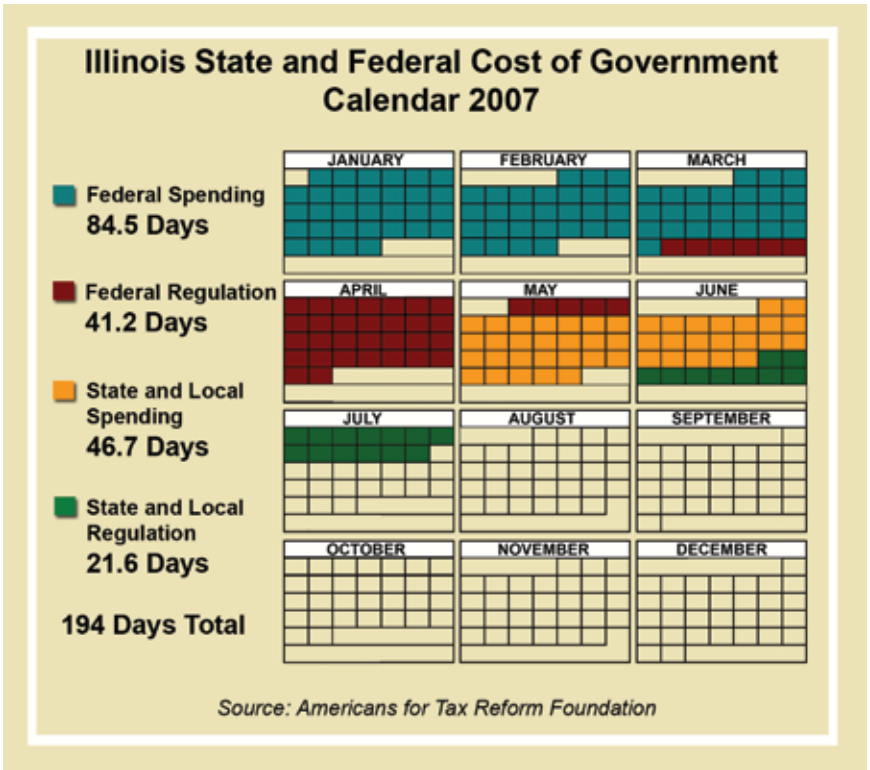
High spending and debt drives up taxes and harms the economy.

Consider the following:

- Taxes and regulations from federal, state, and local governments eat up more than half of an average family's income.
- When government attempts to create jobs by spending tax dollars, it is simply destroying jobs the free market would otherwise create and misallocating resources.
- Every local government bond approved is in fact a delayed tax increase.
- Government cannot create prosperity. Every dollar spent by government, every new government employee, and every bond issued by government equates to a job lost or paycheck cut in the private sector.
- Governments exist to protect rights and individuals' economic opportunity; thus promoting wealth creation.

The True Costs of Government

The calendar below shows the number of days Illinoisans work to pay their share of the costs of government. It includes both the visible costs of government spending at all levels and the hidden costs of state, local, and federal regulation.



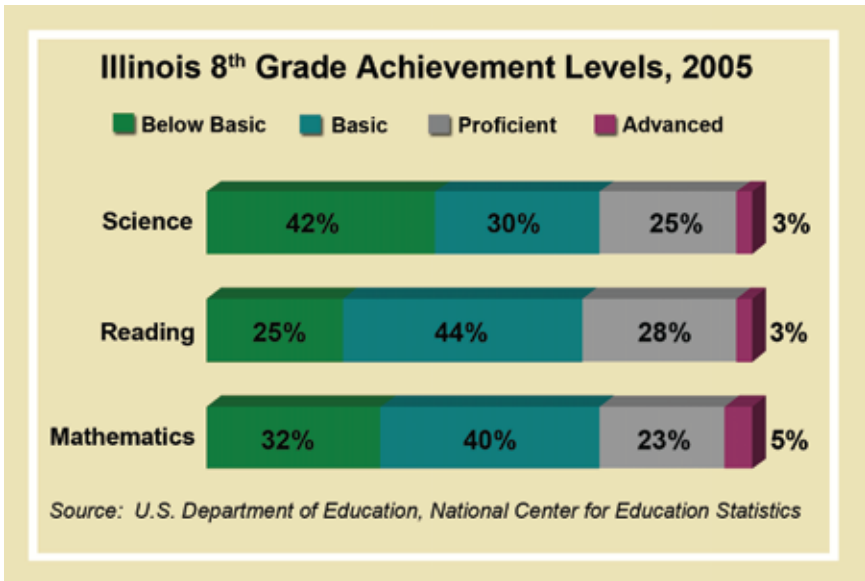
Illinois Taxpayers have to work more than half the year to pay for government. **We directly control only about half of the money we earn.**



Education Solution

In Illinois, nearly one out of four students fails to complete high school. Of students that earn a high school degree, 40% don't have a basic understanding of mathematics.

These are unacceptable results from a public education system that spends more than \$9,900 per child. The chart below illustrates how poorly students in Illinois are performing because of our failing education system.



Critics of public education in Illinois cite an over-reliance on property taxes as a funding source for schools, or a lack of administrative oversight, or an antiquated pay scale for teachers as causes for poor results. Certainly, these arguments have merit.

Others believe that school children don't start school early enough, and that the public schools are asked unfairly to teach skills that should have been learned before kindergarten. This argument has merit, too, which is why Illinois now has "Preschool for All."



However, the greatest hindrance to better schools is the fact that too many parents have no say over where their children attend school. In Illinois, schools are selected for most children by a bureaucrats in the school district. Families unhappy with their assigned school often have no alternative. This is especially true in Illinois's poorest communities where the need for an alternative to failing traditional public schools is most dire.

Recently proposed at an AFP-Illinois education reform forum, an earned education tax credit to offer those families a choice in where their children attend school would provide \$4,000 in tuition assistance to every student in Illinois.

At less than half of the cost taxpayers spend for a student to attend public schools, the \$4,000 refundable tax credit would give parents the opportunity to enroll their child in a private school that best suits their needs. The credit would force public and private schools to compete with one another.

There is unprecedented pressure to increase spending on public education in Springfield. Taxpayers are being asked to spend billions of dollars more on a system of public schools that has produced the same sub-par results for years.

The earned education tax credit program comes at no additional cost to taxpayers. But the fiscal benefit of the credit is minor compared to increased productivity and results. When schools are forced to compete for students – which is what happens when parents have choice – schools are forced to improve.

Conversely, absent significant reform, an increase in education spending – such as the \$597 million spending increase for 2008 – will likely bring little benefit to taxpayers. Schools will not improve until parents have more choices.

Healthcare “Crisis”

Some contend that the healthcare system in Illinois is failing miserably. They claim costs are skyrocketing and the situation is disastrous. As the chart below illustrates, while costs in Illinois are higher than in some states, businesses insure a greater percentage of the population than most surrounding states, at a lesser direct cost to the employee.

Average Family Premium Enrolled in Employer Based Health Insurance, 2005

	WI	US AVG.	IN	IL	MO	IA
Uninsured	10%	15%	14%	13%	12%	9%
Employer Insured	59%	54%	58%	59%	56%	60%
Employee Pays	\$2,251	\$2,585	\$2,188	\$2,265	\$2,447	\$2,436
Employer Pays	\$8,732	\$8,143	\$8,490	\$8,309	\$7,501	\$6,923
Average Cost	\$10,983	\$10,728	\$10,678	\$10,574	\$9,948	\$9,359

Source: Kaiser Family Foundation

The current state run Medicaid program owes over \$2 billion in backlog payments. Even so, Governor Blagojevich has proposed his Illinois Covered Plan to deal with the purported crisis.

For a full implementation of Illinois Covered Plan, the Office of Management & Budget estimates the cost to be between \$2 and \$2.5 billion. The plan is to fund it through revenue from a Gross Receipts Tax and 3% payroll tax only on employers with 10 or more employees who spend less than 4% of payroll on health care.



Both the GRT and the payroll tax will have detrimental effects on the Illinois economy for business and low wage employees. These high taxes will make Illinois less appealing to new business and push some existing business to move to other states that have lower tax rates.

The payroll tax that is meant to punish employers who don't offer health insurance will be passed on to their employees in the form of lower wages or lost jobs.

The Governor's plan will have negative economic effects on businesses and employees and it will be less effective than the market in serving people's healthcare needs.

Health care reform is needed, but an expansion of expensive failing government programs is not the best choice. A successful reform will allow for more individual freedom and options in healthcare.

Individuals tend to take better care of themselves than the government does. We need reforms that lower the costs of healthcare and encourage people to provide for themselves. Government intervention and regulations are a part of the problem in the healthcare industry; more intervention is not the solution.

Illinois voters must decide if we want our fiscally irresponsible government to control the distribution of healthcare or a market system that allows for choice and individual responsibility.



Illinois Can!

Countries and states that let residents and businesses have the greatest control over their money are the most prosperous.

During the 1980s and 1990s, Ireland's economy was one of the worst in Europe. In order to increase prosperity, lawmakers cut its corporate income tax from 50% to 12.5%, and lowered the rate of government spending by 20% over three years. **Ireland, once among Europe's poorest countries, now ranks amongst its wealthiest.** Between 1990 and 2005, the number of jobs in Ireland nearly doubled. Its economy has grown at an astonishing 6% annually. By nearly all measures, Ireland has led the developed world in economic growth.

The United States, as well, has done better when government grows more slowly. In the 1980s, the federal government trimmed taxes, reduced regulation, and slowed the growth of government programs. These reductions helped spur the economic booms of the 1980s and 1990s. More recently, major supply-side tax cuts in 2003 helped revive the economy after 9/11 and the dot.com bust.

A slower rate of government growth will help Illinois attract new residents and businesses. It will stimulate innovation and prosperity.

Above all, a smaller government will provide the competitive advantage Illinois needs if it wishes to remain an attractive place to live and do business.

What Can You Do?

- ✓ You can start by supporting restraints on government taxes and spending.
- ✓ Let your representatives know how you feel about Illinois having higher taxes and government spending than most states in the region and the U.S.
- ✓ Support an earned income education tax credit, and give parent's options and students a greater chance for success.
- ✓ Demand real health care reform that values choice, and not a government controlled system.
- ✓ Join Americans for Prosperity—Illinois (www.AFPIL.org) and see how you can help.

We know the possibility of change exists, but it is you, the taxpayer and voter, who decides what will happen. Will Illinois continue to fall behind or will we **Keep Illinois Competitive?**

All numbers are current at time of publication. Spending, debt, and GDP numbers are adjusted for inflation in 2006 dollars according to the CPI-U.



Sources for data include:

Americans for Tax Reform www.atr.org
Bureau of Economic Analysis www.bea.gov
Bureau of Labor Statistics www.bls.gov
Census Bureau www.census.gov
Center for Public Integrity www.publicintegrity.org
Illinois Secretary of State www.cyberdriveillinois.com
Tax Foundation www.taxfoundation.org
The Department of Education www.nces.ed.gov
US Chamber of Commerce Institute for Legal Reform www.instituteforlegalreform.com
Civic Committee of the Commercial Club of Chicago www.civiccommittee.org



Is Illinois Keeping Up?

Are you concerned about prosperity in Illinois?

DID YOU KNOW

Illinois ranks near the bottom of the region on growth rates of important prosperity indicators such as:

- Private sector jobs
- Gross Domestic Product
- Population

DO YOU KNOW

What drives prosperity?

What Illinois's tax climate is like?

How much the state and federal government cost?

Illinois was once a successful and prosperous state, but has lagged behind the rest of the country. Read this booklet to find out what you can do to make Illinois more successful and prosperous.

AMERICANS FOR PROSPERITY
FOUNDATION

www.AFPIL.org

"I predict future happiness for Americans if they can prevent the government from wasting the labors of the people under the pretense of taking care of them."

-Thomas Jefferson