

Economic challenges for the new governor

By Geoffrey J.D. Hewings

Governor Pat Quinn faces daunting problems as he settles into his new role in Illinois politics. The real size of Illinois' public-sector deficit is uncertain. Quinn's two immediate predecessors left huge future obligations. Finding consensus regarding the priorities for addressing these issues has been difficult at best. Three issues the governor should consider so that short-run solutions do not compromise the longer-term economic development are: employment growth, the role of exports and some major demographic challenges.

Few people are aware that, in employment terms, Illinois has yet to recover from the 2000-2001 downturn. At the end of January, employment in the state was still 240,000 below the prior peak recorded in November 2000. Given the growth in population and the labor force and the decline in labor force participation rates in the last two years, Illinois would need to add about 300,000 jobs to return to those 2000 employment levels. In only one of the last eight years have more than 50,000 jobs been created in Illinois and, absent an economic miracle, it will be 2014-2016 before the state regains those 2000 levels. Since 1945, the longest period of recovery after a downturn or recession has been eight years. Thus, the current economic challenge is staggering in magnitude.

Unlike many of our Midwest neighbors, Illinois has a similar economic profile to the U.S. in terms of the way in which different aggregated sectors (such as construction, manufacturing, business services, etc.) contribute to gross product. However, since 1990 Illinois has added jobs at almost half the national rate and no individual sector has grown more rapidly. If our sectoral portfolio had grown at the U.S. rate, Illinois would now have at least 500,000 additional jobs. Apart from the significant ripple effects of additional jobs, consider the implications for state tax revenues. Why have our growth rates been so anemic? No research has been conducted on this topic.

While Illinois has enjoyed a surge in international exports in the past few years, any competitive advantage that brings may erode because of the appreciating U.S. dollar and the global recession. Further, 80 percent of our dominant export markets are domestic and 40 percent of these markets are concentrated in the Midwest. Illinois should think about how it can help enhance recovery for our Midwest neighbors (Illinois, for example, is very dependent on the auto sector supply chains), but at the same time we need to reassess our national and international competitive positions.

Important changes are also taking place in the demographic composition of the state. In particular, the state loses between \$1.5 and \$2 billion each year because of net migration. Up to 25,000 new jobs could have been created had that money stayed in Illinois. In the next two decades, the population of Illinoisans older than 65 years of age will increase to 20 percent of the total. We need to consider what, if anything, the state can do to enhance the probability of retirees remaining in the state while at the same time enhancing employment opportunities for existing and potential new residents.

In three decades of residence in Illinois, I have been mystified why so few resources in a state with a gross product exceeding \$600 billion have been devoted to understanding how the state's economy works. It is critical that Governor Quinn make a modest investment to explore how the Illinois economy grows, why it has grown less rapidly than the U.S. as a whole and what role the state government can play in enhancing future growth. Poorly crafted policy and inappropriate and inconsistent legislation over the past two decades have cost the state dearly; it is time to stop winging it and draw on the best minds in the state – public, private and academic – to try to make a difference and to ensure that, for once, “the fundamentals of the Illinois economy will be sound, going forward.”

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