

## Economic challenges for the new Governor

While Governor Quinn settles into his new, expanded role in Illinois politics, the problems that he will face are daunting. In addition to the uncertainty surrounding the size of the Illinois public sector deficit, the fiscal time bombs placed by his two immediate office holders and the difficulties of generating a consensus about priorities for addressing the issues, there are some other concerns that need to be considered so that short-run solutions do not compromise the longer-term economic development opportunities for the state. Three issues are presented for his further consideration – employment growth, the role of exports and some major demographic challenges.

Few people in the state are aware that, in employment terms, Illinois has yet to recover from the 2000-2001 downturn. As of the end of January 2009, 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 somewhere in the neighborhood of 300,000 jobs to put us back on an equal footing with where we were in 2000. In the last 8 years, the state has had only one year where more than 50,000 jobs were created; absent an economic miracle, it will be 2014-2016 before the state regains its 2000 levels. Since 1945, the longest period of recovery after a downturn or recession has been 8 years; thus, the current economic challenge is staggering in magnitude.

The real conundrum is that unlike many of our Midwest neighbors, Illinois has a similar economic profile to the US 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 a rate that is almost half that recorded for the US as a whole and no individual sector has grown more rapidly. If our sectoral portfolio had grown at the US rate, Illinois would now have >0.5m more jobs – apart from the significant benefits of additional jobs (through the typical ripple effects), consider the implications for state tax revenues. Why have our growth rates been so anaemic? No research has been conducted on this topic.

In the last few years, the state's economy has enjoyed a surge in international exports but the appreciating US dollar and the global recession may combine to erode some of that competitive advantage. Further, our dominant export markets (accounting for 80% of our total exports) are domestic and 40% of these markets are concentrated in the Midwest states, states whose

economic prospects are also significantly challenged. The state needs to think about how it can work with our Midwest neighbors to enhance their recovery (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.

While it has been traditional to focus attention on the economic aspects of the economy, important structural changes are also taking place in the demographic composition of the state. In particular, as a result of net migration, the state loses between \$1.5 and \$2 billion each year; had that money been spent in the state, a further 20-25,000 jobs could have been created. In the next two decades, the percentage of the population >65 years of age will increase to 20% of the total. This is an issue that we need to explore 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 residents and potential in-migrants.

In three decades of residence in Illinois, I have been mystified why so few resources (in a state with a gross product in excess of \$0.6 trillion) have been directed 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 US as a whole and, critically, what role the state government can play in enhancing future growth. Poorly crafted policy development and inappropriate and inconsistent legislation over the past two decades has 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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