

The myth of an Illinois comeback

By Michael Lucci, Director of Jobs and Growth



Myth:

Gov. Pat Quinn says that Illinois is a regional leader in job creation, and that the state is making a comeback.

Fact:

Illinois has ranked at the bottom of regional employment comparisons since the beginning of the Great Recession. And Illinoisans continue to suffer the worst unemployment rate in the region, with more than 1 million unemployed and underemployed residents.

Quinn claimed in his recent State of the State address:

"... since last May, Illinois has led the Midwest in new jobs created. But over the past five years, we've rebuilt one hard step at a time. And we've been getting the job done. Illinois is making a comeback."

But when is a "comeback" not really a comeback?

When OfficeMax Inc. picks up from Naperville, Ill., and heads to Boca Raton, Fla., leaving 1,600 Illinoisans unemployed.² And when former Illinois manufacturers such as Kenall and Hanna Cylinders move to Wisconsin, and Modern Drop Forge heads to Indiana, each taking hundreds of jobs over the border.

The truth is Illinois' middle- and working-class families still face some of the worst employment prospects in the nation.

Spinning a nine-month period of moderate job creation into the claim of a state comeback is misleading. Here are the facts. Illinois has the:

- **Second-highest unemployment rate nationally:** 8.7 percent vs. a 6.7 percent national rate.
- **Highest unemployment rate regionally:** 8.7 percent versus a 6.1 percent weighted regional average

And since the recession began in January 2008, Illinois has the:

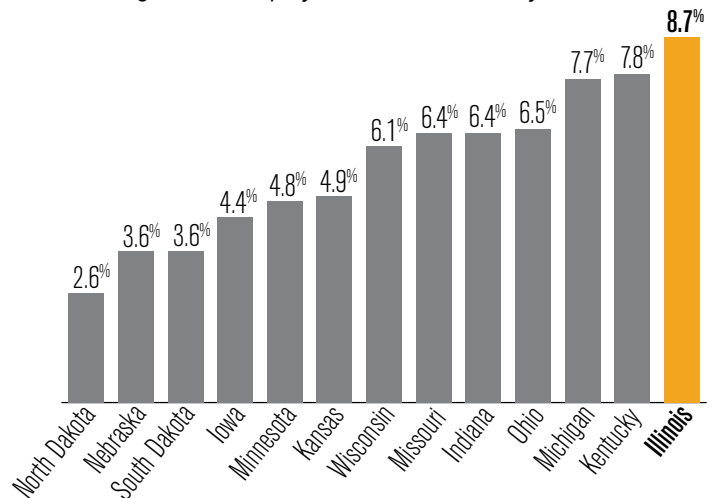
- **Second-worst decline in employment levels regionally:** The number of people employed has fallen by 5.6 percent.
- **Worst collapse in payroll levels regionally:** The number of payroll jobs has dropped by 3 percent.
- **Worst collapse in employment percentage regionally:** The percentage of employed adults age 16-64 dropped by 5.3 percent.

Worst unemployment rate regionally

The state's unemployment rate gives a snapshot of the dim prospects for job seekers in Illinois today. Illinois' unemployment rate is the second-worst nationally, and the worst in the Midwest.

Graphic 1. Illinois lags entire Midwest in employment

Regional unemployment rates (February 2014)



Source: Bureau of Labor Statistics

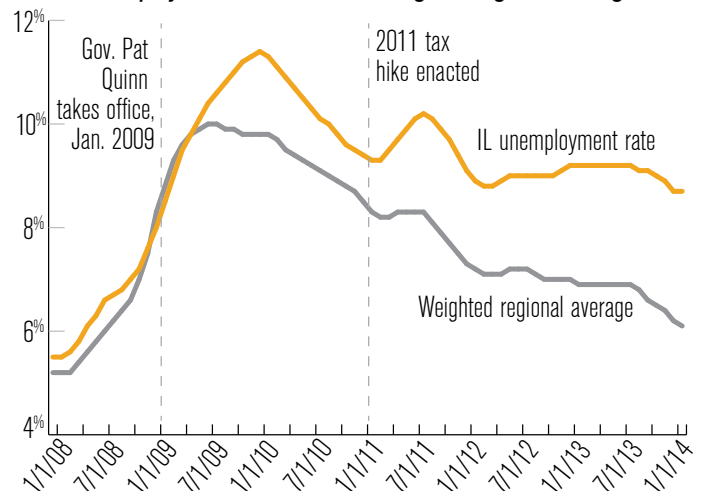
Note: The Bureau of Labor Statistics defines the Midwest as the above states minus Kentucky, which is included as a border state.

Illinois has significantly underperformed compared to the rest of the Midwest. This trend is not new, but has become more pronounced since Quinn took office. Other Midwest states have worked to create job markets in which businesses compete for workers. The Dakotas have opened up their states for energy production, meanwhile, Indiana and Michigan have passed Right-to-Work legislation; and Wisconsin passed significant labor reforms.

In Illinois, workers struggle for any opportunity. In 2013, more than 1 million Illinoisans were unemployed, working part time involuntarily, or discouraged from the workforce altogether.³

Graphic 2. Illinois falling further behind

Unemployment rate: Illinois vs. weighted regional average



Source: Bureau of Labor Statistics

Note: The weighted average is of BLS's Midwest region, minus Illinois, plus Kentucky, and was calculated by dividing the sum of states' unemployed by the sum of states' labor forces.

When Quinn took office, Illinois actually had a lower unemployment rate than the average of the rest of the region. Illinois soon fell behind, but the gap closed to 0.9 percent by the beginning of 2011. The state tax hike was enacted in January 2011, and Illinois' employment situation has since fallen further behind the rest of the region. Another 168,000 Illinoisans would be employed today, more than the population of Rockford, if Illinois' unemployment rate equaled the average for the rest of the region.

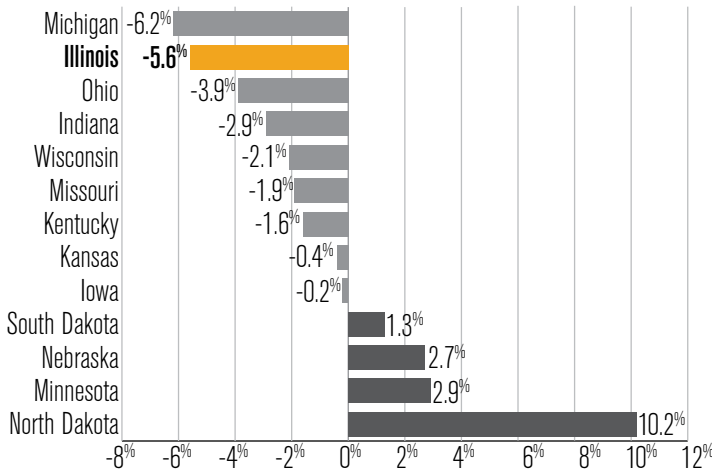
Second-worst decline from pre-recession employment⁴ levels

Illinois is nowhere near recovering all the employment lost during the recession, according to the Bureau of Labor Statistics. The state still had 358,000 fewer people employed in February 2014 than in January 2008.

As a percentage of the workforce, Illinois' employment decline since January 2008 is the second worst in the region. The manufacturing and construction sectors of the Illinois economy were hit especially hard, losing 14 percent and 30 percent of jobs per sector, respectively.⁵

Graphic 3. Illinois not making an employment comeback

Change in overall employment since January 2008



Source: Bureau of Labor Statistics

Note: BLS defines the Midwest as the above states minus Kentucky, which is included as a border state.

Illinois has recovered only 28 percent of its lost employment since bottoming out in November 2009, the worst "comeback" as a percentage of employment lost among regional competitors.⁶

In fact, for every four Illinoisans who lost employment during the recession, only one has regained employment. The other three either remain unemployed or were discouraged enough to leave the workforce altogether.

Worst decline in nonfarm payroll⁷ jobs

Another measure of job recovery is nonfarm payrolls. Payroll declines, which are based on a survey of hires and layoffs at businesses, have been less severe than employment declines, which are based on a survey of American households.

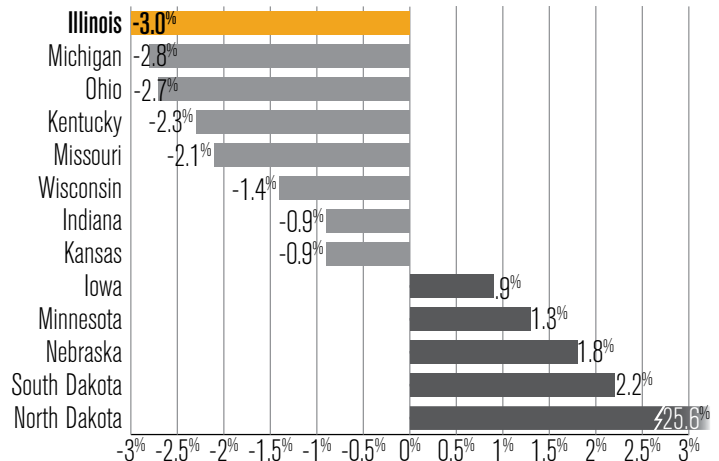
Nonfarm payrolls don't capture the loss of work among the self-employed. In addition, a worker who is laid off from one full-time job and takes on two part-time jobs remains "employed," but changes from having one payroll job to two payroll jobs.

Within the Midwest, five states have recovered the nonfarm payroll job losses they sustained during the recession: Iowa, Nebraska, Minnesota, North Dakota and South Dakota.

Illinois is one of eight states with lower payrolls in February 2014 than in January 2008. Illinois payrolls are down to 5,816,200 for a loss of 178,300 payroll jobs.

Graphic 4. The downsizing of Illinois payrolls

Change in nonfarm payrolls since January 2008



Source: Bureau of Labor Statistics

Note: BLS defines the Midwest as the above states minus Kentucky, which is included as a border state.

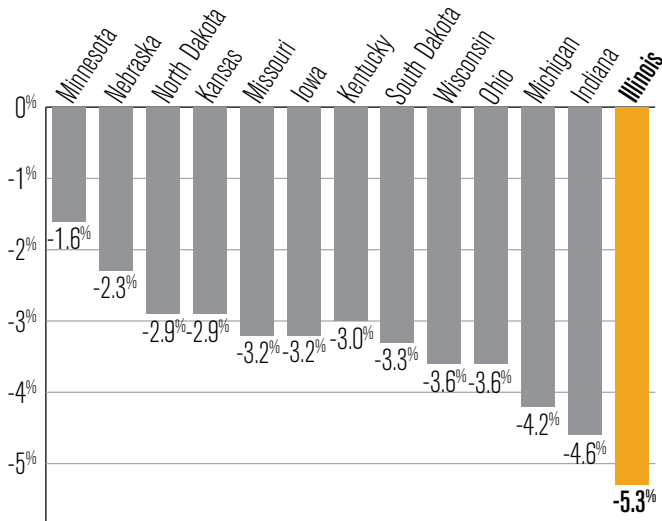
Worst decline in employment ratio

The employment ratio measures the percentage of the working age (16-64) population that is employed. Economist Paul Ashworth describes the employment ratio as the "best measure of labor market conditions."⁸

Illinois' employment ratio collapsed from 65 percent in January 2008 to 59.7 percent in February 2014. Illinois would need 530,000 more adults employed to return to its pre-recession employment ratio.

Graphic 5. Illinoisans age 16-64 driven out of work

Change in employment ratio, January 2008 – February 2014



Source: Bureau of Labor Statistics

Note: BLS defines the Midwest as the above states minus Kentucky, which is included as a border state.

Illinois has long suffered from the net out-migration of taxpayers from the state. From 1992-2010, Illinois lost 350,000 taxpayers – 900,000 total residents with dependents included – to net migration.⁹ Now a smaller and smaller percentage of the remaining population is shouldering the burden of funding core government services with their labor.

There are two components to the collapse in the employment ratio. The driving component is the unprecedented exodus from the workforce by workers who have given up on finding jobs. The rest of the decline can be seen in the state's expanded pool of unemployed residents.

Making a real comeback

The good news is that Illinois has an abundant supply of reform opportunities it can choose to enact. Illinois has not taken a significant step toward economic reform, which leaves a lot of low-hanging pro-jobs solutions.

The state's corporate tax is the fourth-highest in the industrial world,¹⁰ and the state's workers' compensation system is ranked the fourth-most expensive nationally.¹¹ Illinois has the ninth-most costly regulatory burden nationally,¹² including the second-highest fee for a start-up business to file for LLC status.¹³ The state and local tax burden, also ranked ninth-highest nationally,¹⁴ is a significant burden that state government can reduce through simple legislation.

Illinois is down, but the state certainly isn't out. A legislative package of pro-growth, pro-jobs solutions would kick-start the state's stagnant economy and labor markets.

But until then, don't call it a comeback.

Endnotes

- ¹ Gov. Pat Quinn, "State of the State Address," full text from NBC Chicago (2013), <http://www.nbcchicago.com/blogs/ward-room/illinois-quinn-state-of-state-text-242613351.html>
- ² Tess Stynes, "Office Depot Chooses Florida Campus for Headquarters: New Campus Chosen After Recent Merger With OfficeMax," The Wall Street Journal (2013), <http://online.wsj.com/news/articles/SB10001424052702304014504579250213992344036>
- ³ "Alternative Measures of Labor Underutilization for States, 2013 Annual Averages," Bureau of Labor Statistics (2013), <http://www.bls.gov/lau/stalt.htm>
- ⁴ The employment measurement is drawn from the Bureau of Labor Statistics' monthly Current Population Survey (CPS), or "household" survey. This is compiled through a monthly sample survey of the civilian noninstitutional population age 16 and older from approximately 60,000 households nationally. Survey respondents are categorized as employed, unemployed or out of the workforce. For more information, see: http://stats.bls.gov/web/empsit/ces_cps_trends.pdf
- ⁵ "Labor Force Statistics from the Current Population Survey," Bureau of Labor Statistics (2014), <http://data.bls.gov/>
- ⁶ This calculation was done by determining the month when each state bottomed in employment, calculating how much employment had grown from then to December 2013, and dividing that number by the total employment loss from January 2008 to the state's employment trough. Interestingly, Michigan had a greater percentage decline in employment, but Ohio recovered a smaller percentage of lost employment.
- ⁷ The payroll jobs measurement is drawn from the Bureau of Labor Statistics' monthly Current Employment Statistics survey. This survey is a monthly sample of about 554,000 business establishments covering one-third of nonfarm employment. For more information, see: http://stats.bls.gov/web/empsit/ces_cps_trends.pdf
- ⁸ Annalyn Censky, "The other unemployment rate," CNNMoney (2012), <http://money.cnn.com/2012/10/18/news/economy/other-unemployment-rate/index.html>
- ⁹ Ted Dabrowski, "Illinois unraveling," Illinois Policy Institute (2014), <http://illinoispolicy.org/illinois-unraveling/>
- ¹⁰ "Facts & Figures: How Does Your State Compare?," Tax Foundation, <http://taxfoundation.org/article/facts-figures-2013-how-does-your-state-compare>
- ¹¹ Jay Dotter and Mike Manley, "2012 Oregon Workers' Compensation Premium Rate Rankings Summary," State of Oregon Department of Consumer and Business Services (2012), http://www.cbs.state.or.us/external/dir/wc_cost/files/report_summary.pdf
- ¹² "Freedom in the 50 States," Mercatus Center, George Mason University (2013), <http://freedominthe50states.org/regulatory/illinois>
- ¹³ Jacob Huebert, "To help small businesses, Illinois should make LLC fees fair," Illinois Policy Institute (2013), <http://illinoispolicy.org/to-help-small-businesses-illinois-should-make-llc-fees-fair/>
- ¹⁴ "Facts & Figures: How Does Your State Compare?," Tax Foundation (2013), <http://taxfoundation.org/article/facts-figures-2013-how-does-your-state-compare>