Commentary on the Illinois Economy

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The new century has not been kind to the Illinois economy. The state has long been an economic powerhouse—a high income, diversified state led by the economic engine of Chicago. Illinois now faces the prospect of falling back into the middle of the pack. The state has traditionally been one of the highest per capita income states, ranking among the top ten states with income well above the national average. (See the accompanying chart.) By 2004, Illinois' per capita income had fallen to 4 percent above the national average, ranking fourteenth highest among the states.[1] It also lost its place as the highest per capita income Midwest state to Minnesota.

The question now concerns the future prospects for the state. Recent history provides a mixed picture with some reason for modest optimism. Illinois has not been on a steady downward economic path the last 30 years. The state was hard hit by the recessions of the early 1980s that had a disproportionate impact on manufacturing in the so-called "rust belt" states. Illinois' per capita income fell from 12 percent above the national average in the late 1970s to 6 percent above in the mid 1980s. This was a time of extremely high employment as well. Fortunately, this decline was not the death knell for the economy, but a wake up call. The state went through a painful, but ultimately productive restructuring that resulted in an economic resurgence. Per capita income grew

[1] Illinois' decline has been even more pronounced when performance is viewed in total rather than per capita terms. Thirty years ago Illinois accounted for 6.0 percent of national income. In 2004, the share had fallen to 4.5 percent. Slow population growth contributed to these results.

faster than the rest of the nation after the restructuring in the mid 1980s until the late 1990s with per capita again exceeding the national average by more than 9 percent. During this period, Illinois weathered the 1990 recession well compared to the rest of the country.

This period of expansion ended in the late 1990s with relative per capita income falling steadily from 1999 to 2004. The state now faces the challenge of responding to this decline to remake itself as it did in the 1980s. Unfortunately, there is not a road map for the task. For example, the resurgence in the 1980s was not the result of a carefully devised economic plan. At the time, some observers suggested that Illinois emulate the "Massachusetts miracle" or try to become another Silicon Valley or move into defense procurement activities that had proved useful to other states. In fact, the state's turnaround came with individual firms making hard decisions about increasing efficiency and competitiveness in order to survive and thrive.

It worked in the 1980s, but will it work today? In large part, this is a matter of faith. It depends on individual firms making the right decisions about their futures. Often these decisions entail short term pain to achieve long term success. Government cannot be depended on to solve the problem. There is an asymmetry in regard to state policy. State master plans including targeted subsidies and incentives can do little to insure success. However, bad state (and local) policies can lead to failure. The state and local government in Illinois need to deal with the fundamentals of maintaining infrastructure and education in a stable tax and regulatory environment. Business will have to do the rest.

The hope is that Illinois has not settled into a permanent lower level of relative economic performance. Instead, the current situation may be the trough of a cycle that will lead to stronger performance. The results through the first half of 2005 are hopeful with Illinois gaining on the rest of the nation, but only time will tell.