



Manufacturing, Recovery, Revenue and Fiscal Stability

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Illinois, like many other states, is facing its worst economic conditions in many decades, and manufacturers have been hit particularly hard. Unemployment remains at its highest level since 1983, and manufacturers have shed another 93,000 jobs since December of 2007, when the recession began.

Despite this seemingly bad news, there are signs that area manufacturers are beginning to invest in their facilities, processes and workforces. And, even more importantly, leaders are re-examining their markets and the value they provide to their customers. Here at IMEC, we have seen a substantial increase in inquiries from Illinois manufacturers looking for strategies to reverse sales declines and replace stale products and services.

While the drivers for the recession originated outside Illinois, actions we take within our state will impact the pace and extent of recovery. In Illinois, especially, the health and viability of manufacturing is essential to our state's economic health. Investments in manufacturing will generate a multiplier effect on growth in jobs and income in other sectors, fueling economic recovery as well as increases in government revenues. Restoration of funding for programs that support manufacturing sector recovery and growth will enable Illinois to access federal support, further multiplying the benefit of the state's investment. But how do we pay for it when state resources are stretched?

There is an unavoidable lag between the state's investment in the engines that drive economic recovery and the consequent increases in tax revenues. This lag, typically one to two years, results in a gap in funding that must be addressed. While some of this gap can be filled through

shared reductions in government expenditures across a large number of programs, some additional revenues will be required. When considering the alternative sources of additional state revenues, the impact of each on the pace of economic recovery needs to be carefully considered.

Transitional revenue sources, such as borrowing, will have the least adverse impact on economic recovery. While additional debt will eventually have to be repaid, the period can be extended, reducing the economic impact by spreading it over multiple years. Small temporary increases in sales taxes on selected commodities/services can also be used to minimize current economic impact while generating additional state funding that is critically needed. Even a temporary increase in income taxes can help bridge the gap if it is "across the board" and not targeted to just one sector, such as businesses. The key is to ensure that the generation of additional revenue has minimal impact on the rate of business expansion, since that expansion will drive recovery.

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During these very difficult times, our government leaders are walking an economic tightrope. Their actions will either lay the foundation for economic recovery and future growth, or extend the period of economic crisis. We need to encourage and support our leaders and encourage them to make the difficult choices that will enable our recovery to be as fast and durable as possible.

Each day, we read about a manufacturer that is calling it quits or moving operations to another country. While no doubt manufacturing is in the midst of one of its most challenging periods, we cannot be content to sit back and watch this sector evaporate. Let your legislative leaders know that manufacturing is important to you. **iBi**



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which direction
do you turn for
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