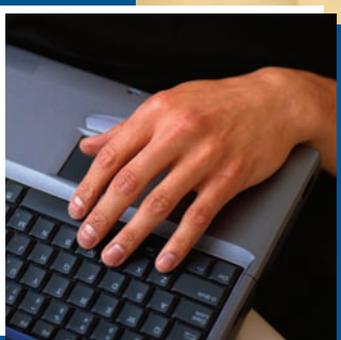


2007

**THE
STATE OF
WORKING
ILLINOIS**

**EXECUTIVE
SUMMARY**

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The Illinois economy is experiencing a major transformation. Before the last two decades, the state had consistently been a national leader in job growth and median income. During the last twenty years, however, as global competition increasingly affected state and regional economics, the results have been more mixed. Job creation in Illinois now lags the nation, and while the state's median income remains greater than most states, it too is on the decline. On the positive side, the recent growth rate of the Illinois economy has rebounded. Although Illinois lagged the entire Midwest Region in economic growth from 1990-2004, from 2005-2006 Illinois fared better than the Midwest average. Yet, as Illinois' overall economy appears to be rebounding, most workers have seen their real, inflation adjusted wages decline from 2001 through 2007.

A number of factors are working simultaneously to produce the complex patterns that are changing the Illinois economy. One primary factor has been the continued economic restructuring that has yielded many new jobs, but predominantly replaces higher-paying jobs with lower-paying ones. Another factor is the significant portion of population growth fueled by the arrival of immigrants. Accelerating economic globalization creates an additional set of factors, the full impact of which are not yet clearly understood. These changing dynamics touch virtually every community across the state, regardless of whether it is a center-city urban neighborhood, a well-established wealthy suburban enclave, a fast-growing community on the edge of urban sprawl, or a small town struggling to cope with rural decline.

The complex interactions among these and other factors create challenges for Illinois workers, their dependents and policy makers that are increasingly different than the ones faced prior to the turn of the 21st century. To inform decision makers, community groups, business leaders and working families, the State of Working Illinois report details the most significant changes that have occurred in the Illinois economy over the last 20 years, and builds on our previous studies, released in 2005 and 2006. The report is produced collaboratively by two applied research groups within Northern Illinois University (the Center for Governmental Studies and the Office for Social Policy Research) and the independent, bipartisan, non-profit Center for Tax and Budget Accountability. The data compiled in the report illustrate a number of trends that can help inform the work of policy makers and advocacy organizations.

The Illinois Economy

Illinois continues to have a relatively large state economy (usually expressed as state gross domestic product, or GDP) of approximately \$507 billion in 2006, which ranked the state fifth nationally. The 2005-06 GDP growth rate for Illinois of 3.0% lagged the national rate (3.4%), and ranked only 26th in the nation. From 2000 through 2006, of the state's 9.2% real GDP growth rate ranked third out of the five Midwestern states (behind Indiana and Wisconsin), but fell significantly below the national growth rate of 15.0%.

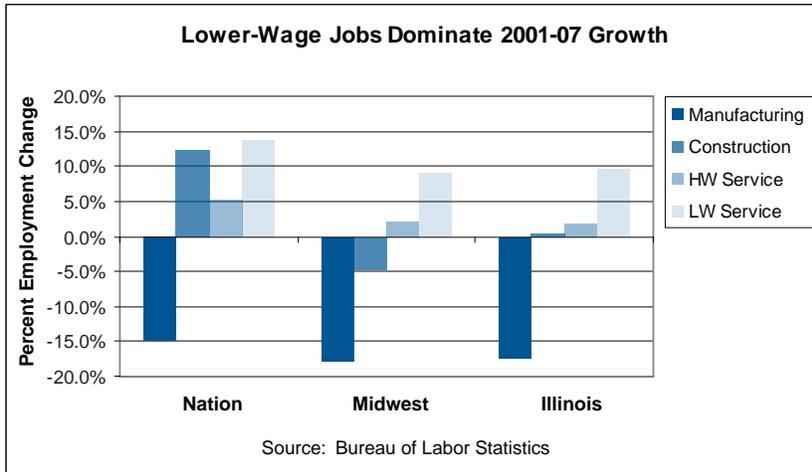
Changing Job Opportunities

The most notable change in the Illinois economy is the continued trend of replacing higher paying jobs with lower paying ones. This is best illustrated by the ongoing decline in Manufacturing employment, and the increasing prominence of lower-paying service sectors.

In 1990, Manufacturing accounted for more workers than any other sector, employing slightly more than one of every five workers in the state—20.4% of the total. But Illinois lost 26% of its in-state manufacturing jobs over the past 17 years, worse than both the Midwest as a whole (20.8%) or the nation generally (20.9%). By 2007, only 13.2% of the state's workers were employed in Manufacturing. As a result, Manufacturing employed a smaller proportion of the state's workforce than Professional & Business Services (17%) and Education & Health Services (15.1%), and was only marginally ahead of Retail Trade (12.2%). Meanwhile, lower-wage service sectors accounted for 30.7% of all non-agricultural, private-sector employment, significantly more than the total employment Manufacturing accounted for in 1990, when it was the top employer in the state.

While the state's manufacturing jobs were disappearing, the service sectors were adding jobs. Since 2001 higher-wage service jobs in Illinois grew by 1.7%, lagging both the Midwest's rate (2.0%) and the nation's

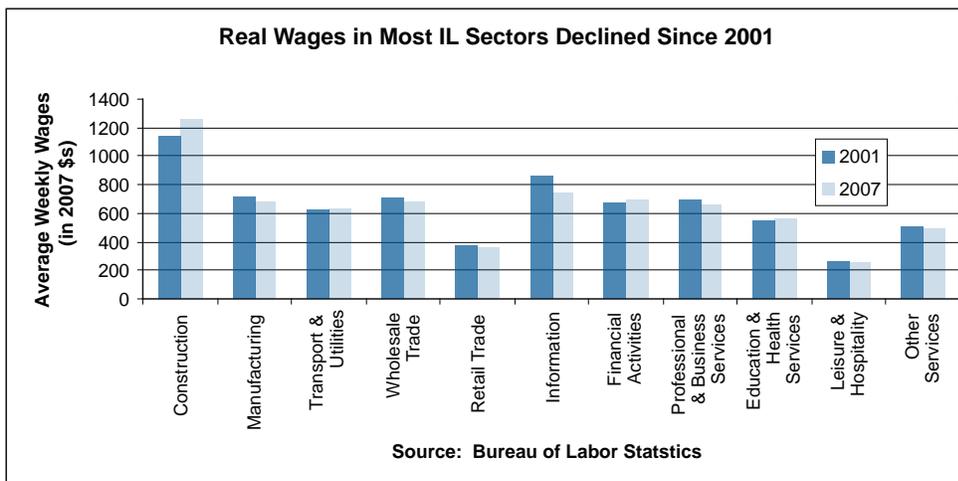
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(5.1%). During the same period, Illinois added 1,580,600 lower-wage service jobs, a 9.6% growth rate that exceeded the Midwest's rate (9.1%) but fell below the national rate (13.6%). As a result, Illinois now has 12.4% more workers employed in lower-wage service jobs than in higher-wage service jobs, more than twice the 5.4% differential that existed in 1990 or the 4.4% differential that existed as recently as 2001.

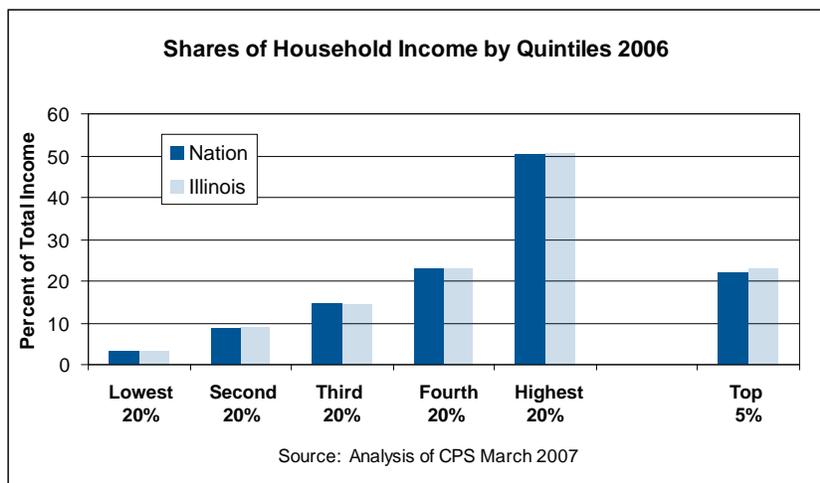
Declining Real Wages

The long-term shift in employment patterns from higher to lower paying jobs has had negative ramifications for the income of the state's workers. When wages are adjusted for inflation, most Illinois workers actually experienced declining average weekly earnings from 2001 to 2007. In fact, in "real dollars," i.e., dollars adjusted for the effect of inflation, the only sectors that paid increased average weekly wages were Construction, Education & Health Services, Financial Activities and Transportation & Utilities. The other seven sectors experienced declines in real average weekly wages. While the inflation-adjusted earnings of most Illinois workers declined, the cost of items that comprised most of their family budgets were increasing. Significant increases in the cost of essentials like food (+23.5%), housing (+38.3%), health care (+44.7%), gas (+83.3%), and utilities (+43.0%) make it easy to appreciate how declining real wages have negatively impacted the standard of living for most working families.



That the economic trends of recent years have had significant consequences for Illinois workers and their families is starkly illustrated both by changes in the state's median household income and the degree of income inequality that marks Illinois. While median household income in Illinois is higher than the rest of the Midwest and the nation as a whole, it is on the decline. Measured in 2006 dollars, Illinois median household income peaked during 1999-2000 at \$54,900. Today, Illinois median income stands at \$49,328, about 10 percent below the 2000 level, but a slight improvement over the 2002-2003 low-point of \$48,686.

Moreover, income inequality in Illinois is now just about as severe as it is in the nation as a whole. Nationally, the share of income held by the vast majority of households—literally eight out of every ten—has declined



over the last quarter century, and only those in the wealthiest 20% of households realized an increase in overall income. In Illinois, the highest-earning quintile accounts for over 50% of total household income, while the bottom three quintiles (i.e., 60% of the households) together account for only 26.6% of total household income.

Changes in the Illinois Labor Force

The Illinois civilian labor force grew over the last 17 years, reaching over 6.7 million individuals available for work by June 2007. This meant Illinois added 121,164 workers since 2006, and 807,875 since 1990. The workforce not only grew, it also became more diverse. Between 1980 and 2006 whites dropped from 82.3% to 70.7% of the total workforce, while Hispanics increased from 4.4% to 11.2%. The share of African-Americans in the workforce peaked at 13.5% in 2000, and has since declined to 12.5%, as the Asian share has doubled since 1990, reaching 4% by 2006.

The participation rate of women in the Illinois labor force peaked during 2000-2002, when women comprised 47% of the workforce, and has since dropped to 45.8%, lower than both the Midwestern rate of 46.8% and national rate of 46.3%.

Illinois' labor force has also become more educated. The share of the state's workforce with a college degree in 2007 was 33.8%, higher than both the Midwestern share of 27.8% and the U.S. national share of 29.5%. Meanwhile, the share of the workforce without a high school degree was only 10.9%.

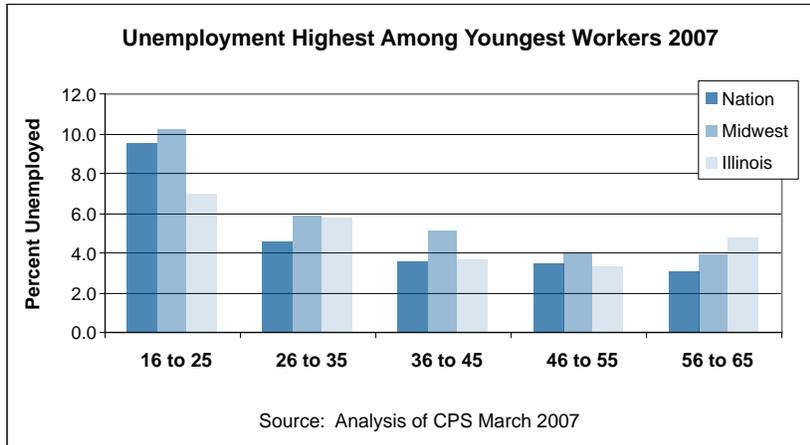
Predictably, labor force participation rates are weakest in Illinois for the youngest and least educated cohorts. Over time, the declining participation rate of individuals aged 16-to-24 in Illinois is especially troubling. After holding relatively steady between 67% and 68% through 2000, this youthful cohort's participation rate dropped nine percentage points by 2006, suggesting an increasing risk of long-term labor market detachment and resulting connections to a larger set of social problems.

Ethnic/Racial Differences in Skills and Experiences

Hispanics are collectively the youngest and least-educated workers in Illinois—with over one-third (38.6%) not completing high school, and another 31.4% with only a high school diploma. At the other end of the educational scale, only 11.4% of Hispanics have a college degree, the smallest percentage of the state's main ethnic/racial categories.

African-Americans had a 10% jobless rate in 2006, nearly triple that of Whites (3.4%) and double the rate among Hispanics (5.5%) In fact, relatively high unemployment has been a consistent characteristic of the African-American workforce in Illinois. Through good economic times and bad, unemployment within the African-American community has been higher than the state's overall rate. That finding by itself strongly suggests that something more than benign labor-market dynamics have been operating.

High unemployment rates also characterize the youngest cohorts across all the state's major ethnic and racial categories, but again is especially severe among young African-Americans. Currently, 15.6% of African-Americans aged 16 to 25 are unemployed, compared to a 5.9% unemployment rate for Whites and 6.2% for Hispanics in this age cohort.



Moreover, among those unemployed in the 16–25 year old cohort, over half the Whites (51.4%), just over three-quarters of the African-Americans (77.7%), and virtually all the Hispanics are both out of work and out of school. The fact that these youth are neither working nor pursuing educational opportunities leaves them especially vulnerable to long-term detachment from employment and related social problems.

Education a Key Factor in Employment

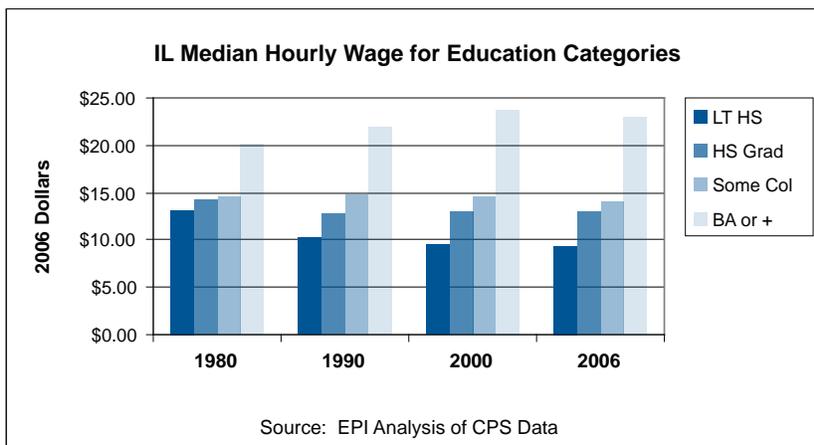
In the globalized labor market of the twenty-first century, education is more strongly associated with upward mobility and higher earnings than ever before. Nationally, regionally and in Illinois, higher unemployment rates are associated with lower levels of education. Individuals in Illinois with less than a high school education are three times more likely to be unemployed than those with at least a B.A.

Among Whites, African-Americans and Hispanics, lower unemployment rates characterize the better-educated categories. The unemployment rate for Whites fell from 9.5% for those with less than a high school diploma to 3.5% for those with a college degree or better. Similar declines occur among African-Americans—from 22.7% to 4.5%—and Hispanics—from 8.3% to 1.5%.

Disturbingly, even a narrowing education gap between Whites and African-Americans has not eliminated employment rate differentials. At every level of education, the unemployment rate is higher for African-Americans than for Whites. For individuals with less than a high school diploma, the unemployment rate among African-Americans was more than double that for Hispanics or Whites. And even for those with a college degree, African-Americans unemployment was higher than for Whites or Hispanics.

Education Boosts Wages and Incomes

Median wages over time have consistently varied directly with education levels, and the relationship is growing more pronounced in Illinois since higher education is now a virtual requirement for landing a high-paying job. Expressed in real (2006) dollars, between 1980 and 2006, median hourly wages for those with less than a high school diploma fell by 28.7%; for those with only a high school diploma by 8.7%; and for workers with some college but no degree by 4.3%. From 1980 to 2006, only those workers with at least a college degree experienced any income gains: 14.3% (\$2.89 per hour).



In 1980 the gap between the median hourly wage for workers with less than a high school diploma and those with a college degree was \$7.01. By 2006, the gap between these two categories of wage earners had grown to \$13.67, a 95.0% increase.

Minorities Behind in Education and Income

While African American and Hispanic household incomes lag behind their White and Asian counterparts, increased education works powerfully to boost the incomes of these groups. Moreover, within each of these groups, households incomes for those with college degrees is substantially higher than for those without that post-secondary credential. This demonstrated importance of education to higher earnings obviously raises questions concerning access to quality K–12 education generally and the increasing costs of post-secondary training specifically, and the extent to which these factors operate to restrict opportunity for ethnic, racial, and income groups.

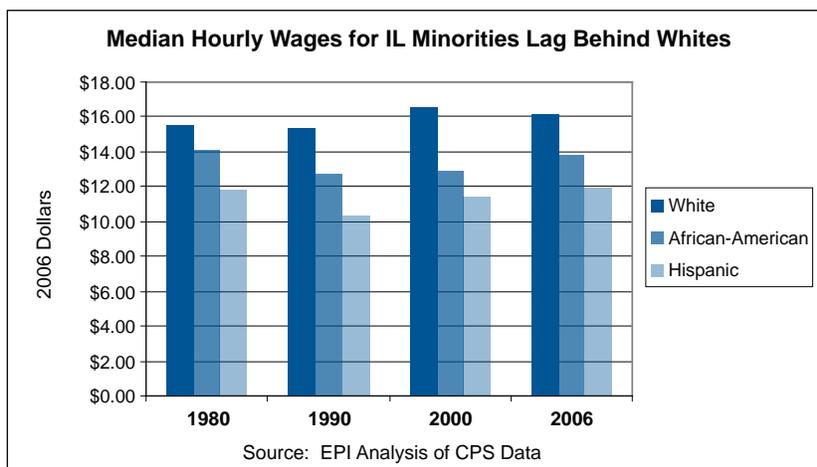
Education did not erase all disparities between Whites and minorities. For instance, among Whites with a college degree, 51.4% earn over \$100,000 per year; but only 27.7% of African-Americans and 38.2% of Hispanics with college degrees earn over \$100,000 per year. Moreover, 25.0% of the Whites and 33.6% of Asians with a college degree are in the highest category of annual earnings, \$150,000 or more. Yet, among African-Americans and Hispanics who are college educated, only 6.6% and 9.3%, respectively, reached this top earnings category. Thus even at the top level of educational attainment, appreciably greater percentages of Whites and Asians than African-Americans and Hispanics realize top economic benefits.

Variations in Sectoral Employment, Ethnicity and Race

Disproportionate concentrations of women and/or minorities in some sectors, combined with comparatively low employment rates in others, indicate that while diversity is increasing in the workforce generally, it is not spread evenly across industries. For instance, women predominate in lower-paying service activities (64.0% of total workers), but they only break even with men in higher-paying service employment (50.0% of total workers). Almost one-third of all women in the workforce (31.6%) are in the Education & Health Services sector, where they make up nearly three-quarters (73.5%) of the total employees, but women comprise only a minuscule 7.9% of the workers in Construction. Women constitute a larger share of workers in Manufacturing (27.9%) and Transportation & Utilities (27.3%), two higher-paying sectors, but still represent less than one-third of the workers in either.

Patterns of disproportionate employment also appear in Illinois across major ethnic and racial groups. For example, 24.4% of all Hispanics in the workforce are employed in Manufacturing. As a result, Hispanics now comprise 22.0% of the Manufacturing workforce in Illinois, even though they constitute only 11.2% of the state’s total workers. Hispanics also make up 16.4% of the total number of workers in Construction, a sector in which African-Americans historically have had particular difficulty gaining employment and in which they now comprise only 5.4% of the workers. Hispanics also remain heavily employed in Leisure & Hospitality with 12.3% of all Hispanics in the workforce in this sector, where they constitute 20.2% of the total workers.

Persisting Wage Gaps



Median hourly wages for women have increased over time, reaching a high of \$13.85 in 2006, a gain of \$2.22 (19.0%) since 1980. But even this striking growth has not been large enough to eliminate the male-female wage gap. The differential between the median hourly wages of men and women in Illinois was \$7.26 per hour in 1980, and dropped to \$3.05 in 2006, a 57.9% reduction over the 26-year period. Yet, despite this steady decline in the

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wage gap, women in Illinois still earn on average 18.0% less than their male counterparts, and the Illinois wage gap between men and women remains 6.2% larger than the gap at the national level.

Meanwhile, the wage gaps between Whites, on the one hand, and African-Americans and Hispanics, on the other, have worsened. Real median hourly wages for Whites increased modestly between 1980 and 2006 (by 3.9%), but declined by 2.2% for African-Americans and remained virtually unchanged for Hispanics (gaining only 0.5%). As a result, the gap between White and African American median hourly wages worsened from \$1.48 in 1980 to \$2.40 in 2006, an increase of \$.92 per hour (or 62.1%) over its 1980 size. The White-Hispanic wage gap grew from \$3.71 in 1980 to \$4.25 in 2006, which represents an increase of 14.5% (or \$.54) over the 1980 level.

Union Membership Increases Wages

In addition to education, one other factor works to boost the earnings of Illinois workers – membership in labor unions. Overall, the average weekly earnings of union members in Illinois are \$110 per week, or 14.2%, higher than non-union members. The earnings premium from union membership also works to boost the wages of women and all minority groups—except Asians. For women, union membership yields a wage premium of about 21.5% compared to women who are not union members. African-Americans who are union members have average weekly wages that are 11.6% higher than their non-union counterparts, and the boost for Hispanic workers is 40.1%. White workers derive about a 16.3% premium in average weekly wages from union membership.

Growing Economic Insecurity: Health Insurance and Pensions

The proportion of Illinois workers who benefit from employer-provided health insurance continues to fall. By 2004-2005, over two-fifths (40.8%) of Illinois workers did not have employer-provided health insurance. The proportion of Illinois residents lacking any kind of health insurance also has increased, from 10.9% in 1990 to 14% in 2006. This decline in private sector health insurance has left Hispanic workers and their families especially vulnerable, since only 42.3% of them have employer-provided coverage.

Similar declines have occurred in employer-provided pensions. By the 2004-2006 period, less than half of the state's workers— just 48.6% had any employer-provided pension plan, down from 55.6% in 1980.

Summary of Regional Trends

In 2005, 91.6% of the state's GDP was produced within the boundaries of its nine metropolitan areas. These same metropolitan areas contain 92.1% of the state's population. The portions of the Chicago metropolitan region that lie within the state of Illinois (about 91% of the metro region) contributed an estimated 75.6% of the state's total GDP in 2005.

The remainder of Illinois' eight metropolitan areas combined (counting only the portions that are within Illinois) produce a GDP of about \$90.0 billion. The largest among them is the group of Illinois counties that make up the eastern portion of the St. Louis metropolitan area, with a combined GDP of \$28.7 billion. The Peoria region, with \$14.4 billion, and the Rockford region, with \$10.9 billion, are the next two largest.

In 2005, the total GDP of the state's non-metropolitan rural counties totaled \$46.7 billion, or 8.4% of the state's total GDP. These counties contained 7.9% of the state's population.

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