

Public Policies That Help Grow the Illinois Economy: An Evidence-Based Review of the Current Debate

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ABOUT THE PROJECT FOR MIDDLE CLASS RENEWAL

The Project for Middle Class Renewal’s mission is to investigate the working conditions of workers in today’s economy and elevate public discourse on issues affecting workers with research, analysis and education in order to develop and propose public policies that will reduce poverty, provide forms of representation to all workers, prevent gender, race, and LGBTQ+ discrimination, create more stable forms of employment, and promote middle-class paying jobs.

Each year, the Project will be dedicated to a number of critical research studies and education forums on contemporary public policies and practices impacting labor and workplace issues. The report that follows, along with all other PMCR reports, may be found by clicking on “Project for Middle Class Renewal” at illinoislabored.org

If you would like to partner with the Labor Education Program in supporting the work of the Project or have questions about the Project please contact Bob Bruno, Director of the Labor Education Program at (312) 996-2491.

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EXECUTIVE SUMMARY

What policies improve a state’s economic performance and how do specific state laws impact economic outcomes? In an effort to provide some insight into the current debate in Illinois over measures under consideration by state lawmakers, the Project for Middle Class Renewal in the School of Labor and Employment Relations at the University of Illinois at Urbana-Champaign and the Illinois Economic Policy Institute have prepared this White Paper.

Economic and social science research generally finds that investing in K-12 education and postsecondary education– “human capital development”– and investing in infrastructure– “physical capital development”– are the most effective public policies at improving economic growth. Fiscal sustainability through balanced budgets also allows governments to fund these investments and boosts business confidence. These conclusions are supported by the preponderance of country-level studies and numerous economic reports in the United States, as well as by a majority of surveyed economists, academics, and corporate executives.

Other policy changes that have been proposed in Illinois would have mixed economic and social impacts:

- Peer-reviewed studies demonstrate that “right-to-work” laws have no statistical effect on overall employment in a state economy, but research does find that “right-to-work” tends to reduce wages, limit unionization, and redistribute wealth from labor to capital.
- A repeal of the Illinois Prevailing Wage Act would have no discernible impact on construction costs but would reduce middle-class construction worker earnings, increase worker reliance on government assistance programs, negatively impact apprenticeship training, and hurt the market share of local contractors.
- Reducing unemployment insurance and limiting program eligibility tends to reduce unemployment spells but also lowers the post-unemployment wages of workers because they have less time to find the “right” job match.
- Research indicates that reducing workers’ compensation benefits would have no role in boosting employment in Illinois.
- Raising the minimum wage would have little to no effect on total employment, but would reduce inequality and make housing affordable for hundreds of thousands of workers in the state.
- Providing economic development incentives and business subsidies would have little effect on economic outcomes, and numerous studies conclude that they actually reduce employment in areas because they come at the expense of other productive public goods.
- There is no evidence that limiting local government from increasing property taxes positively impacts per capita income growth, but a property tax freeze can negatively impact local economic development if it reduces the quality of public schools or causes cuts to protective services.
- Studies on term limits for state legislators find that they are correlated with higher government spending and slower long-run economic growth, regardless of which party controls the legislature.

Elected officials in Illinois should consider these research findings in making policy decisions to improve the state’s economic performance and make Illinois an attractive place to work, do business, and live over the long term.

TABLE OF CONTENTS

Executive Summary	i
About the Authors	i
Introduction	1
I. Policies and Programs that Grow the Economy and Boost Employment	1
(1) Country-Level Economic Research	1
(2) Economic Research in the United States	2
(3) Surveys of Economists, Policy Academics, and Corporate Executives	3
II. The Economic and Social Effects of Recently Proposed Changes in Illinois	4
(1) Introducing “Right-to-Work” Laws	4
(2) Repealing Prevailing Wage	5
(3) Reducing Unemployment Insurance and Lowering Program Eligibility	7
(4) Reducing Workers’ Compensation Benefits	8
(5) Raising the Minimum Wage	9
(6) Providing Economic Development Incentives and Business Subsidies	10
(7) Limiting Local Governments from Increasing Property Taxes	11
(8) Instituting Term Limits for Elected Officials	12
Conclusion	12
Bibliography	14

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INTRODUCTION

What policies improve a state's economic performance and how do specific state laws impact economic outcomes? In an effort to provide some insight into the current debate in Illinois over measures under consideration by state lawmakers, the Project for Middle Class Renewal in the School of Labor and Employment Relations at the University of Illinois at Urbana-Champaign and the Illinois Economic Policy Institute have prepared a White Paper briefing. This White Paper addresses two key points. First, we describe the policies and programs that conclusively grow the economy and boost employment based on country-level economic research, research in the United States, and surveys of economists, public policy professors, and corporate executives. Second, we evaluate the effects of recent policy proposals in Illinois using pertinent economic and social research. The policy proposals investigated include: introducing "right-to-work" laws, repealing prevailing wage, reducing unemployment insurance benefits, reducing workers' compensation benefits, raising the minimum wage, providing economic development incentives, limiting local governments from increasing property taxes, and instituting term limits for elected officials.

I. POLICIES AND PROGRAMS THAT GROW THE ECONOMY AND BOOST EMPLOYMENT

(1) Country-Level Economic Research

The Organization for Economic Cooperation and Development (OECD)— which includes the United States and 34 other developed economies committed to democracy, economic progress, and world trade— has provided "General Policies to Improve Employment Opportunities for All" based on the experiences of advanced market economies (OECD, 2006). The OECD recommends a mix of properly-designed active labor market programs to reduce unemployment by improving the efficiency of the job-matching

process and by enhancing worker skills. The OECD also notes that human capital investments result in strong economic growth and mitigate poverty when they are demand-driven and include government co-financing. Finally, the OECD reports that governments can facilitate family-friendly employment by improving access to child care and parental leave and that "a moderate minimum wage generally is not a problem, but... adequate allowance for sub-minima for youth and possible other vulnerable groups is essential" (OECD, 2006).

Studies of European Union countries generally find that active labor market policies such as employment subsidies and apprenticeship programs, access to child care and elderly care, access to cheap and efficient transportation, and public provision of educational services all support employment. Fialová (2011) finds that employment protection legislation reduces the employment rate but that active labor market programs, labor unions, and the unemployment benefit replacement rate (i.e., the ratio of unemployment benefits received as a percentage of previous earnings) have stimulating effects that improve the economy. Kleven (2014) has found that, contrary to the presumption of many economists, countries with high taxes and generous welfare systems tend to have higher employment rates among individuals ages 20 through 59. Kleven finds that a person may be more likely to work when his or her country provides public services that make working easier and encourage labor supply, "including child care, elderly care, and transportation." Scandinavian countries, in particular, impose high taxes and provide significant public services, "and yet those countries feature very high employment" (Kleven, 2014). Additionally, Lehmann (2014) finds that large cash transfers to low-income individuals have a stimulating effect on labor supply.

The studies by Fialová, Kleven, and Lehmann imply that elected officials should consider the *benefits* of spending on public services in addition to *costs*, such as taxation and user fees. The

suggestion is echoed by Blomquist, Christiansen, and Micheletto (2009), who have studied the examples of child care, elderly care, primary education, and health care and concluded that “there is a potential gain in efficiency where public provision of such services replaces market purchases.” Economies with higher tax rates can be more efficient than those with lower tax rates because they put tax dollars to use on policies that effectively improve economic growth. Scandinavian countries, for example, have a proactive “flexicurity model,” which is a way of organizing labor markets to allow flexible hiring and firing practices but to also have significant worker security measures, including a strong social safety net and active programs to educate workers, support families, and promote high wages (Andersen et al., 2011).

(2) Economic Research in the United States

Perhaps the most successful function of government in fostering economic development has been to educate the populace. In *American Economic History*, Hughes and Cain (2003) of Northwestern University note that the 20th Century was the “human-capital century.” In 1910, only about 10 percent of America’s youth graduated from high school. Thirty years later, over 50 percent of 18 year olds received a high school diploma. This subsequently “set the stage for the massive increase in college education that took place during the post-World War II years.” The returns to education were high, and demand for educated blue-collar workers rose considerably. “It is no coincidence,” Hughes and Cain conclude, “that, at the time America began to pull ahead of other countries in terms of income, it also pulled ahead of other countries in terms of education” (Hughes & Cain, 2003).

More recent research corroborates this conclusion. Blomquist, Christiansen, and Micheletto (2009) find that providing public education significantly improves the employment rate. An extra year of education for an individual increases his or her earnings by 7 to 10 percent

and an additional year of education on average in the population raises a country’s economic growth rate by 1.2 percentage points (Stevens & Weale, 2003; Barro, 1997). Similarly, Jackson, Johnson, and Persico (2015) find that a 10 percent increase in spending on public education statistically leads children to complete more schooling, improves their future wages in the labor market by 7.3 percent, and reduces their chances of living in poverty once they hit adulthood by 3.7 percent on average. Finally, evidence by Berger and Fisher (2013) finds that a well-educated workforce raises median wages and builds a foundation for shared economic prosperity at the state level.

Economic research and simulations also reveal that education spending and physical infrastructure investment enhance economic growth and boost employment. In a review of academic studies, Fisher (1997) found that education spending had positive impacts in 12 of 19 studies (63 percent) and highway spending had positive impacts in 10 of 15 studies (67 percent). Research from Moody’s Analytics has found that, for every dollar increase in infrastructure spending, the economy improves by \$1.57 (Zandi, 2010). This is a larger economic impact than nearly all other policy changes aimed at stimulating the economy. For instance, tax rebates, credits, and cuts only generate between \$0.22 and \$1.24 in economic activity per dollar invested. The significant fiscal “bang for the buck” of investing in infrastructure has led the Center for Tax and Budget Accountability to estimate that a \$6 billion “transportation/infrastructure program... would generate about \$9.4 billion” and create nearly 100,000 jobs in Illinois (Martire et al., 2009).

Two recent reports by Bruno and Manzo corroborate the conclusion that public education and infrastructure investments improve economic outcomes. In an analysis of 24 different policies and economic phenomena, the authors find that four public policies directly support employment: improving the share of the population with a bachelor’s degree, increasing the number of three

and four year olds in early childhood education programs, improving and expanding highways, bridges, and railways, and reducing the average travel time commuting to work (Bruno & Manzo, 2015). Each of these policies statistically increases the working-age employment rate by increasing productivity and improving overall connectivity. In addition, higher budget surpluses in state government indirectly support employment by improving investor confidence and ensuring that funds are available to maintain public services during economic downturns. Likewise, the policies that statistically reduce the African-American unemployment rate in urban counties across the United States include boosting public sector employment, investing in public transportation, investing in education to increase the number of African Americans with bachelor's degrees, reducing the costs of homeownership, and enforcing prohibitions against racial discrimination in employment practices (Manzo et al., 2017). In multiple studies using different types of data, other policies such as "right-to-work" laws and higher household taxes had no discernible impact on employment levels.

(3) Surveys of Economists, Policy Academics, and Corporate Executives

Over the past few years, the Booth School of Business at the University of Chicago has maintained a panel of economists from top universities in the United States. Up to 51 economists are surveyed regularly for their views on important questions, revealing whether there is agreement or disagreement on major public policy issues (IGM Forum, 2017).

Of particular interest to state governments are questions that have been asked about infrastructure, immigration, the minimum wage, and state budgets. There is a strong consensus among these economists about the benefits of infrastructure and immigration. Fully 98 percent of economists agree with confidence that the "government has an opportunity to increase average incomes by spending more on roads,

railways, bridges and airports." On immigration, 94 percent agree that the average citizen would be better off if more highly-educated foreign workers were allowed to immigrate to the United States and 63 percent feel the same way regarding low-skilled foreign workers. Conversely, these economists have mixed views on the impact of a \$15 minimum wage on the employment of low-wage workers— with 34 percent agreeing that it would reduce employment, 29 percent disagreeing, and 37 percent uncertain. Finally, 88 percent of the panel agreed with confidence that "some U.S. states [such as Illinois], unless they substantially increase taxes, cut spending, and/or change public-sector pensions, will require a combination of severe austerity budgets, a federal bailout, and/or default" (IGM Forum, 2017).

Over the past two years, the Illinois Economic Policy Institute (ILEPI) has conducted anonymous surveys of economics professors and public policy professors at accredited university programs in Illinois. ILEPI received responses from 110 academics in 2016 and 94 academics the year before. Results from both questionnaires show that economic and policy academics in Illinois are generally strong supporters of infrastructure investment, public education, immigration, and tax changes to help balance the state budget (Manzo, 2016a; Manzo, 2015). Specifically, 79 percent think Illinois should increase transportation infrastructure investment and a majority says that increasing investment in highways and bridges (67 percent) and in public transit systems (67 percent) would improve the state's employment rate and grow the Illinois economy. Similarly, a majority of economic and policy academics in Illinois say that expanding enrollment in early childhood education programs (66 percent) and raising the share of the workforce with a bachelor's degree or higher (55 percent) would improve the state's employment rate and grow the economy. Most of those surveyed also think that Illinois should fix the budget with a mix of spending cuts and tax increases (72 percent). Fewer than one-quarter of economic and policy academics in Illinois think the following policy items would grow the Illinois economy: passing

“right-to-work” legislation (21 percent), raising the adult minimum wage to \$15.00 per hour (18 percent), and lowering workers’ compensation rates and program eligibility (17 percent) (Manzo, 2016a).

An important additional contributor to a state’s economic growth is the number of businesses opening up or locating in the state. *Area Development* annually surveys approximately 200 corporate executives about the most important factors in their firm location decisions. Over the five most recent surveys, the top two factors have consistently been highway accessibility (1st) and the availability of skilled labor (2nd), with about 90 percent of respondents saying that each is an important factor. Occupancy or construction costs, quality-of-life factors, available buildings, and energy availability are all more important in the location decisions of corporations than a state with tax exemptions, a “right-to-work” law, or a low union profile (*Area Development*, 2017). Consistently— whether in surveys of economists or corporate executives— experts report that physical capital development through infrastructure and human capital development through education and worker training are the public policies that are most effective at growing the economy.

II. THE ECONOMIC AND SOCIAL EFFECTS OF RECENTLY PROPOSED CHANGES IN ILLINOIS

(1) Introducing “Right-to-Work” Laws

A “right-to-work” (RTW) law, contrary to what its name would suggest, has nothing to do with the right of an individual to seek and accept gainful employment. Instead, a RTW law is a government regulation that bars employers and labor unions from agreeing to “union security” clauses in collective bargaining agreements. “Union security” clauses ensure that each person in a collective bargaining unit who receives the benefits of collective bargaining (e.g., a higher wage, better health and retirement benefits,

grievance representation, a voice at work) also provides his or her fair share of dues or fees.

RTW raises serious equity issues. Workers are not forced to join a union anywhere in America. However, labor unions must by law fully represent all employees in a workplace where a majority of workers have chosen to be represented by a union. In RTW settings, workers can choose to receive 100 percent of the sizeable benefits of a collective bargaining agreement, while making no contribution to the cost of providing those benefits which include negotiating and administering the contract, handling grievances and arbitrations, and less formal issues under the agreement. This arrangement violates one of the most cherished values of American society: the fairness principal. RTW, contrary to basic social tents of individual autonomy and responsibility, celebrates— even encourages— shifting the burden of sustaining an equitable employment relationship onto others.

Studies done in 2012 and 2014 by the Congressional Research Service find that the “existing empirical research is inconclusive” and that the isolated impact of “right-to-work” on employment outcomes is mixed (Collins, 2012, 2014). While some studies have suggested that RTW increases manufacturing employment (Kalenkoski & Lacombe, 2006), recent research finds no discernible effect on manufacturing employment and calls the prior results into question (Eren & Ozbeklik, 2011). A meta-analysis of the peer-reviewed studies finds no statistically significant impact of RTW laws on overall employment in a state economy (Stevens, 2009; Hogler, 2011; Collins, 2012; Manzo et al., 2013; Collins, 2014). Reports that find that RTW laws increase job growth are typically methodologically unsound, failing to control for a litany of other extremely important factors that fundamentally impact employment (e.g., Vedder, 2010; Zycher et al., 2013).

Proponents of RTW contend that restricting union membership will increase worker incomes. But any assertion that right-to-work laws improve

worker incomes is false based on the academic research. While some reports find no evidence that RTW influences worker incomes (Moore, 1980; Eren & Ozbeklik, 2011; Hogler, 2011), many recent economic studies find that the policy causes a loss in worker earnings. Gould and Shierholz (2011) control for almost all demographic and macro-economic state factors, and estimate that RTW reduces wages by 3.2 percent on average while lowering employer-sponsored health insurance benefits by 2.6 percent. The 3 percent drop in hourly wages associated with RTW has been replicated in three recent studies using new data (Bruno & Manzo, 2014; Gould & Kimball, 2015; Bruno & Manzo, 2017). The law has also been found to reduce the wages of the most vulnerable nonunion workers by about 3 percent (Lafer, 2011). Finally, new research on the introduction of RTW in Indiana, Michigan, and Wisconsin has found that RTW has statistically reduced real hourly wages by 2.6 percent on average, with even larger impacts on middle-class careers such as construction and extraction occupations (-5.9 percent), service occupations (-3.1 percent) and office and administrative support occupations (-2.7 percent) (Bruno & Manzo, 2017).

RTW has been found to further redistribute wealth from employees to employers. Stevans (2009) used an advanced statistical analysis to find that worker wages and per capita income are both lower, on average, in RTW states. Stevans concluded that RTW lowers wages by 2.3 percent but increases proprietor income by 1.9 percent, indicating that RTW is a transfer of income from workers to owners with “little ‘trickle-down’ to the largely non-unionized workforce in these states” (Stevans, 2009). Additionally, as recently as 2012, “compensation of employees,” which includes wage and salary income plus employer contributions for employee pension funds, employee insurance funds, and government social insurance, was 54.4 percent of total gross domestic product (GDP) in collective-bargaining states but just 51.5 percent of total GDP in RTW states. By contrast, “gross operating surplus,” which includes proprietor income, corporate

profits, net transfer payments from businesses and governments, and fixed capital depreciation, is 39.1 percent in collective-bargaining states but 41.7 percent in RTW states (Bruno & Manzo, 2014). This information supports Stevans’ conclusion that a RTW law transfers income from labor to capital.

The downward effect of “right-to-work” laws on worker incomes has a consequential impact on the public budget. By lowering worker earnings by around 3 percent on average, RTW is associated with a fall in tax revenues. A RTW law statistically lowers the after-credit federal income tax liability of workers by 11 percent on average. Revealingly, 46.6 percent of workers in RTW states paid no federal income taxes from 2011 through 2013, compared to 44.5 percent of workers in collective-bargaining states (Bruno & Manzo, 2014). RTW leads to workers earning less, so they *contribute* less in income taxes, sales taxes, and property taxes.

Moreover, when workers earn less, they are more likely to *receive* supplemental income assistance from government programs (Bruno & Manzo, 2014). Indeed, RTW statistically increases the poverty rate among workers by approximately 1.0 percentage point. Accordingly, despite paying less in taxes, workers in RTW states receive 19 percent more in tax relief from the Earned Income Tax Credit and 14 percent more in food stamp value than workers in collective-bargaining states. A RTW law also lowers both the share of workers who are covered by an affordable employer-provided health insurance plan and the share of workers who are covered by a pension plan by about 3 percentage points each on average. When workers do not have their own health and retirement plans, they are often forced to turn to public programs for assistance in times of need.

(2) Repealing Prevailing Wage

The Illinois Prevailing Wage Act ascertains wage and benefit standards for public construction projects paid for using taxpayer dollars. The

policy is designed such that workers employed on public construction projects receive family-supporting compensation reflective of the local market rate. The main purpose of a prevailing wage law is to maintain local labor quality, training, and wage standards and to support the local economy in the competitive public bidding process. The law creates a level playing field for all contractors by ensuring that workers are paid a construction minimum wage based on job classification and skill, incentivizing contractors to compete over factors other than labor costs, such as worker productivity, materials costs, technological proficiencies, management practices, and profit margins (Duncan & Ormiston, 2017).

The preponderance of the economic research finds no evidence that a prevailing wage law increases total construction costs. Over the past 16 years, 76 percent of the studies examining the effect of prevailing wage on construction costs find that the policy has no impact on total costs, including 82 percent of the studies focused on public school construction (Onsarigo et al., 2017). The economic research reveals that this is primarily because labor costs are a low and historically declining percentage of total costs in the construction industry; approximately 24 percent on public works projects in Illinois (Census, 2012). In addition, as worker wages rise in construction, contractors reduce expenditures on materials, fuels, and rental equipment and accept slightly lower profit margins (Duncan & Lantsberg, 2015). These changes offset any small impact of higher labor costs associated with a prevailing wage law.

Prevailing wage helps local workers access ladders into the middle class. Economic research finds that prevailing wage increases craft construction worker earnings by 16 to 17 percent annually. The policy has an even larger impact on low-income individuals, increasing earnings by 18 to 19 percent for working-class construction workers while having no discernible effect on the wage and salary income of managers and supervisors in the industry. Furthermore,

prevailing wage statistically increases health coverage for craft workers (Manzo et al., 2016).

Prevailing wage is also an effective job skills advancement policy. The law ensures that the next generation of construction workers is trained, the current skilled workforce is attracted and retained, and the previous generation is cared for in retirement. Economic research shows that prevailing wage is successful at increasing apprenticeship training in construction. Bilginsoy (2005) finds that apprenticeship enrollments are 6 to 8 percent higher in states with prevailing wage and that more apprentices complete their training in these states. Another study finds that the apprenticeship share of the construction workforce is 14.4 percent in states with prevailing wage compared to 7.7 percent in states with no law (Dickson Quesada et al., 2013). Finally, research conducted after nine states repealed prevailing wage from 1979 to 1988 found that a repeal was associated with a 40 percent decrease in worker training (Philips et al., 1995). In part because prevailing wage improves construction worker training and skills, craft workers have been found to be 14 to 33 percent more productive in states that have prevailing wage compared to their counterparts in states without the policy (Philips, 2014).

By upholding local compensation and productivity standards, prevailing wage increases the likelihood that local, in-state contractors complete public projects. Prus (1999), for instance, discovered that the probability of winning a bid on a public school construction project is 5 percent higher for in-state contractors in states with prevailing wage. Similarly, a case study from southern Indiana illustrates how the weakening and eventual repeal of Indiana's prevailing wage law negatively impacted local contractors. Public works construction employment in the 13 southernmost Indiana counties decreased by 21 percent after the wage policy was weakened. Over the same period, public works construction employment grew by nearly 21 percent in 14 border counties across the river in Kentucky. Average construction wages

were lower in Kentucky prior to the Indiana prevailing wage alteration, and the wage differential served as a deterrent to the migration of less-skilled workers employed by out-of-state contractors. However, once the wage policy was weakened and contractors could pay less than the local market rate, there was a greater demand for low-wage, out-of-state workers (Manzo, 2016b). Finally, in Illinois, approximately 93 percent of construction work is completed by in-state contractors, significantly higher than the 89 percent completed by in-state firms in states without prevailing wage laws (Dickson Quesada et al., 2013).

Economic research has further found that the wage policy not only supports local contractors but also does not reduce bid competition. A recent study by Duncan (2015) focused on the effect of prevailing wage standards on the cost of highway resurfacing projects in Colorado. The study compared projects funded by the federal government, which require the payment of prevailing wage, to projects financed by the State of Colorado, which are not covered. After taking project size and complexity into account, Duncan found no significant cost difference associated with the law and that the level of bid competition did not vary between projects. Similarly, at the municipal level, an examination of public works projects in five San Francisco Bay-area municipalities found that prevailing wage standards had no effect on the number of bidders or on contractor bidding behavior relative to the engineer's estimate of the value of the project (Kim et al., 2012). Another study on library construction in Santa Clara County, California revealed that 39 percent of subcontractors employed on prevailing wage projects were county-resident businesses but the corresponding figure when prevailing wages did not apply was 23 percent.

Prevailing wage is a good deal for taxpayers. Prevailing wage does not increase construction costs, but it does raise tax revenue while reducing poverty and associated government assistance costs. First, because craft workers earn higher

incomes in states with prevailing wage, they contribute more in taxes than their counterparts in states without the law. A new working paper by Philips and Blatter (2017) reveals that the absence of a prevailing wage law reduces income tax and property tax revenues from construction workers by 17 percent. Second, prevailing wage saves taxpayer dollars by reducing government assistance costs. In states without prevailing wage, construction workers are 3.1 percentage points more likely to fall below the official poverty line, 2.5 percentage points more likely to rely on food stamps, and 1.1 percentage points more likely to qualify for Earned Income Tax Credit (EITC) assistance (Manzo et al., 2016).

By ensuring quality infrastructure, promoting a strong middle class, and reducing reliance on government assistance, prevailing wage benefits the Illinois economy. A 2013 study by researchers at the University of Illinois at Urbana-Champaign and Michigan State University projected that repeal of Illinois' prevailing wage law would result in 3,300 jobs lost in the state, a \$1 billion decrease in GDP, and \$44 million in lost tax revenue. Due to a decline in apprenticeship training, it was also estimated that approximately 70 additional construction workers in Illinois would suffer fatal work-related injuries over a decade due to repeal. Conversely, maintaining or strengthening the Illinois Prevailing Wage Act would provide numerous positive economic and social impacts to the state (Dickson Quesada et al., 2013)

(3) Reducing Unemployment Insurance and Lowering Program Eligibility

Unemployment insurance is a social program designed to partially replace lost wages when a worker is laid off. In Illinois, the program ensures that unemployed individuals will have up to 26 full weeks of partial income over a one-year period. Eligible workers can collect unemployment insurance benefits after a waiting period; the level of compensation depends on the worker's weekly wage. According to the Tax

Foundation, a conservative-learning research nonprofit, Illinois has the 13th-highest unemployment insurance taxes in the nation (Tax Foundation, 2017).

Unemployment insurance programs have both negative and positive economic effects. In general, a rise in the benefit as a share of previous income has been found to increase unemployment spells; however, higher compensation means that workers can take their time finding the “right” career opportunity, instead of taking the first job that comes along. Thus, economists estimate that a 10 percent increase in unemployment compensation increases the length of time unemployed by between 6 and 10 percent but also increases the post-unemployment wage of workers by 2 to 7 percent (Borjas, 2010). The former reduces economic efficiency while the latter improves economic output.

Temporary expenditures on unemployed workers also produces net value to the economy. Analysis done in 2010 by the U.S. Department of Labor found that every dollar spent on unemployment support generated about \$2 of economic value (DOL, 2010). A 2014 study by Moody’s Analytics revealed that a dollar invested in increased unemployment payments triggered a \$1.49 in consumer spending (Lee et al, 2014). Economists have consistently recognized that the unemployment insurance multiplier effect was greater than an across-the-board tax cut (\$0.95) or a corporate tax cut (\$0.32).

Unemployment insurance has been a key component of Illinois’ social insurance system for decades. Unemployment insurance provides households with income when it is needed most and ensures that families can continue to pay for food and other essential items. Unemployment insurance is also an “automatic stabilizer,” helping to counter effects of economic downturns by providing a stable source of consumer spending. Moreover, unemployment insurance encourages working-age individuals to stay attached to the labor force instead of dropping out entirely, which can have positive effects on future

earnings and individual well-being (Furman, 2016).

(4) Reducing Workers’ Compensation Benefits

Workers’ compensation is a form of insurance provided by the employer of a company that provides benefits and medical treatment to employees who suffer work-related injuries or illnesses. Workers’ compensation benefits cover payments for the employee’s time off while in recovery, compensation for any permanent disability obtained, and job retraining if the worker is unable to return to his or her old job. Historically, employers have accepted workers’ compensation systems because they reduce the costs of liability lawsuits.

Unlike other states, Illinois does not have a state workers’ compensation fund. Private carriers account for 75 percent of workers’ comp medical benefits and self-insured companies make up the remaining 25 percent. In an effort to reduce costs, Illinois implemented a 30-percent reduction to the fee schedule in September 2011. As a result, Illinois experienced decreases in average medical payment per claim. From 2010 to 2014, premium levels fell by 13 percent in Illinois, the 11th-largest decrease in the nation, but other factors have offset the drops in premiums, meaning that actually rates charged to employers have not decreased substantially. Nevertheless, in contrast with the 13 percent drop in Illinois, premiums increased by 4 percent in Missouri, 0.2 percent in Wisconsin, and 17 percent in Iowa (Radeva, 2015). As of 2016, workers’ compensation premium rates in Illinois are currently similar to those in Delaware, Oklahoma, Rhode Island, Louisiana, and Montana (Oregon DCBS, 2016).

Very little economic research has been conducted on the economic effect of reducing workers compensation benefits. One study by the Federal Reserve Bank of Kansas City found that higher workers compensation costs had small negative impacts on employment in U.S. states from 1976

to 2000. However, the “elasticities are very small,” meaning that workers’ compensation costs “are not a likely cause of jobs woes in most states” (Edmiston, 2005). Interestingly, the study also found that unionization has a positive impact on wages, has no effect on employment, and tends to reduce workers’ compensation costs—perhaps due to higher apprenticeship training and more workplace safety rules which lower injury rates. The small estimated impact of workers’ compensation costs on employment may explain why, in a survey of 110 top economics and policy professors in Illinois, only 17 percent said that lowering workers’ compensation rates and program eligibility would improve employment and grow the economy in Illinois (Manzo, 2016a).

(5) Raising the Minimum Wage

Recent economic research that utilizes innovative statistical approaches tends to find little to no effect of a higher minimum wage on employment. Labor economists Dube, Lester, and Reich use a border-county approach which combines local case studies with a time series model. Since “the counties border each other, differences due to geographic and locational factors should be minimized” and since the county economies are likely to be interconnected, the minimum wage disparities are one of the only differences from one county to its neighbor across the border (Dube et al., 2010). In analyzing 1,169 border-county pairs from 2001 to 2008, Dube, Lester, and Reich estimate that a 10 percent increase in the minimum wage raises the average earnings of teenagers by 1.6 percent and reduces teen employment by a small 0.4 percent while raising the earnings of restaurant workers by 2.1 percent and reducing restaurant jobs by 0.6 percent (Dube et al., 2011). There was no earnings or employment effect on manufacturing workers (Dube et al., 2010). A meta-analysis of all studies since 2000 suggests that a 10 percent increase in the minimum wage reduces employment, at most, by 0.7 percent (Wolfson & Belman, 2014).

Similarly, a recent University of Washington report on the impact of Seattle’s minimum wage hike found that the incomes of low-wage workers increased by \$1.18 per hour in the 18 months after the ordinance was passed, with the higher minimum wage contributing to this gain. Meanwhile, Seattle’s job growth rate tripled the national average and the authors report that they “do not find compelling evidence that the minimum wage has caused significant increases in business failure rates.” While there is some evidence that the minimum wage increase modestly held back unskilled employment in Seattle, low-wage workers did relatively well after the minimum wage was increased (The Seattle Minimum Wage Study Team, 2016).

There are many explanations for why the minimum wage appears to have no discernible effect on total employment. First, while research does indicate the number of new job hires declines after a minimum wage increase, the number of job separations through layoffs or quits also falls (Dube et al., 2011). Minimum wage increases “substantially reduce turnover and increase job stability, even without affecting overall employment levels for highly affected groups” (Dube et al., 2013). The higher “efficiency wage” encourages employees to work harder to keep their jobs, incentivizes employers to be diligent in their hiring practices, and lowers turnover costs to businesses. Second, the policy stimulates the economy through increased aggregate consumer demand. Research has demonstrated that the rich save more as a share of their incomes than the poor (Dynan et al., 2004) and a 10 percent increase in the minimum wage has been found to lower the poverty rate by between 2 and 3 percent (Dube, 2013). Since the minimum wage compresses wages and reduces extreme inequality, it can have a neutral or even positive effect on total consumer demand, eliminating potential job losses from the policy. In 2009, researchers at the Federal Reserve Bank of Chicago found that “spending increases substantially after a minimum wage hike” (Aaronson et al., 2009). For every dollar increase in the minimum wage, families with a minimum

wage worker increase spending by \$700 to \$900 per year on average. Third, employers may respond to higher minimum wages through other “channels of adjustment” (Schmitt, 2013). Employers may slow pay increases for higher-wage workers, reduce customer service, accept lower profits, or pass on higher labor costs to consumers through higher prices— though the evidence that prices increase as a result of higher minimum wages is weak (Card & Krueger, 1994; Wadsworth, 2010).

Research on raising the minimum wage in Illinois indicates that the policy change would have positive impacts on the economy. In 2014, Manzo and Bruno estimated that a \$10.00 minimum wage would cause either a small drop or a small gain in employment (between -70,000 and 32,000 jobs), have little to no impact on hours worked, increase labor income by between \$5 billion and \$8 billion for all workers in the state, and reduce income inequality (Manzo & Bruno, 2014). Additionally, a recent 2016 study by Nolan, Dickson, Bruno, and Smith found that 59 percent of renter households with at least one worker earning less than \$10 per hour are housing cost burdened. The authors estimate that a \$10.00 minimum wage would potentially impact 875,000 Illinois workers and reduce the number of cost-burdened renter households by 10 percent. A \$15.00 minimum wage would impact approximately 1.7 million workers in the state and reduce the number of low-income households that are cost burdened by 21 percent. The authors estimate that a \$15 minimum wage would result in a net 0.8 percent decrease in overall employment in Illinois but that state and local tax revenues would improve by \$2.4 billion annually (Nolan et al., 2016).

(6) Providing Economic Development Incentives and Business Subsidies

Peer-reviewed economic research generally finds that economic development incentives have little to no effect on economic outcomes (Betz et al., 2012). Many outside firms see very generous incentives as an indication of a “profligate” state

or a local government that may be spending beyond its means, reducing the quality of public services (Peters & Fisher, 2004). This lowers business confidence and limits the number of new establishment openings in a local economy. Tax incentives also tend to have little to no effect on economic growth or capital investment in a local economy because the subsidies “do not affect firm location at the margin” (Patrick, 2014). Research indicates that business location decisions occur in two stages. First, businesses perform evaluations to determine a list of potential profit-maximizing markets with access to customers, the necessary workers, and low operating costs— of which taxes only make up a small percentage. Business subsidies are only relevant in the second stage to differentiate between markets on the list. Companies often use the tax incentives as leverage in this second stage to extract more subsidies from the highest-bidding locality, but the lack of incentives “does not fundamentally change whether the area is a profit-maximizing location.” Subsidies do not turn a bad market into a good location to do business; they slightly improve an already-good place to do business.

There have also been numerous studies that conclude that business incentives actually *reduce* employment in an area. One analysis found that while incentives may provide a small employment effect in urban counties that diminishes over time, they have lasting negative effects on rural employment levels (Patrick, 2014). Another study on communities in Oklahoma discovered that cash payments to firms to cover 5 percent of “newly created” payroll had no long-term impact on income, population, home values, or job growth in cities with at least one business obtaining the funding. In fact, the percentage of manufacturing jobs actually declined in communities that received the subsidy (Whitacre et al., 2013). In Ohio, establishments receiving business subsidies experienced an average decrease of 10.5 jobs two years later, after accounting for other factors (Gabe & Kraybill, 2002).

The main reasons why business incentives can have a negative impact on the economy is because they come at the expense of other productive public goods and because they primarily benefit the rich. Expenditures on incentives are associated with decreased spending on education, highways, corrections, police protection, fire protection, and sanitation (Wang, 2016). Accordingly, business subsidies often mean either fewer public services and a lower quality of life or higher taxes levied on other businesses and individuals (Betz et al., 2012). In addition, the top 10 percent of households account for 78 percent of all capital-based income, which is the type of income that is affected by business incentives and corporate taxes (Bivens & Blair, 2017). Doling out business tax incentives ignores the fact that the most effective forms of stimulus are broad-based investments in people and in infrastructure. This has led Greg LeRoy, Executive Director of Good Jobs First, to claim that “economic development incentives waste a lot of money on a microscopic fraction of employees and states should focus on investing in infrastructure and education that benefit everyone, rather than showering big companies with dollars” (Wang, 2016).

(7) Limiting Local Governments from Increasing Property Taxes

There is little direct economic research on the economic impact of temporary or permanent property tax freezes. However, recent research does exist on the impact of tax and expenditures limitations (TEs), which are state laws, intended to constrain the amount by which local government officials can raise taxes from year to year. Using panel data for the 50 U.S. states from 1987 to 2004, Stallmann and Deller (2011) find that property tax levy limits for local governments have no effect on per capita income growth. The researchers do, however caution that, “few generalities can be drawn, in part because no two TEs are exactly the same” (Stallmann & Deller, 2011).

The vast majority of property tax collections are used to fund public schools in Illinois. Schools in Illinois are highly dependent on the collection of property taxes for revenue generation (Manzo, Manzo and Bruno, 2017). In 2014, local taxes and school fees— which are mostly property taxes— comprised 64.7 percent of all elementary and secondary education revenue. Approximately 330 school districts out of 852 (38.7%) rely on at least 75 percent of revenue from property taxes and other local dollars (Rado, 2016; ISBE, 2015). In 2010, Illinois ranked 50th in the nation in percentage of revenues coming from the state for preschool to 12th grade education (ISBE, 2013). Professor Bruce Baker of Rutgers University explains that school district’s reliance on property taxes is mostly a product of neglect: “Quite frankly, Illinois is just one of those states that’s never bothered to put enough state aid into the system” (Vevea, 2016). In total, Illinois’ public K-12 school districts received \$15.7 billion from property taxes in 2014 (U.S. Department of Commerce, 2016). As a result of this funding system, Charles Wheeler III of the University of Illinois— Springfield cautions about the “chilling effect of a property tax freeze,” which would more severely impact districts that are heavily reliant upon property taxes. For example, had a prohibition against levying a tax amount equal to the Consumer Price Index been in effect in 2016, Monticello Community Unit School District 25 would have lost about \$175,000 in revenue from its \$16 million budget, which would have resulted in teacher layoffs.

Furthermore, cities rely on property taxes to cover the costs of other important services such as police and fire protection, as well as public pensions (Wheeler, 2017). Thus, a property tax freeze can negatively impact local economic development if it reduces the quality of public schools in the community or results in higher crime or property damage from cuts to protective services. This may explain why only 11 percent of economics professors and public policy professors in Illinois report that they believe prohibiting local governments from increasing property taxes for two years would improve

employment and grow the economy (Manzo, 2015).

(8) Instituting Term Limits for Elected Officials

What are the fiscal consequences of legislative term limits? In theory, increased turnover among state legislators and governors could have mixed impacts on economic growth. Higher turnover for elected officials could result in good public policy by making races more competitive and introducing innovative ideas to the legislature. Moreover, a lack of turnover could entrench politicians in a culture of overspending (Payne, 1991). On the other hand, term limits could result in bad public policy because inexperienced politicians replace experienced officials who are supported by their constituents (Adams & Kenny, 1986). Additionally, high turnover can reduce commitment to long-term policy goals at the expense of short-term spending or tax cuts, imposing debt on future generations of legislators (Alesina & Tabellini, 1990). Turnover could also lead to instability, which has negative impacts on business confidence that could reduce economic growth.

A 2015 study by Uppal and Glazer finds that term limits for state legislators are correlated with slower long-run economic growth. Increased turnover lowers the rate of growth regardless of which party controls the legislature: “An increase in turnover by about 25 percentage points, which is the typical increase in term-limited states... results in about a 0.95 percentage point decrease in the long-run growth rate, compared to a sample average of about 2.7%.” In additional analyses accounting for more variables, the authors’ estimates range from no effect to a 0.87 percentage point decrease in the long-run growth rate of personal income; importantly, the effect of term limits is not positive in any of the 16 approaches taken in the study. The authors find evidence that term-limited legislators increase spending in ways “designed to constrain the policy choices of future office holders, whose

policy preferences the incumbents may dislike.” Committing future elected officials to policies that are difficult to reverse may explain why term limits are associated with slower economic growth (Uppal & Glazer, 2015).

Additional studies (Erler, 2007; Keele et al., 2013) have confirmed the spending spike after term limits are applied to legislators. Asako, Matsubayashi, and Ueda (2016) advanced knowledge about how term limits impact legislative outcomes by finding that the bigger the reduction of “variance between legislator’s years of service,” the larger the increases in government spending. In other words, higher turnover in legislatures tends to increase government spending. The authors’ data was drawn from 49 U.S. state legislatures covering the years 1980 to 2010.

Importantly, the increased expenditure-term limit nexus is not restricted to legislators. Research by Besley and Case (1995) and Alt, de Mesquita, and Rose (2011) reported that governors confronted with a “binding term limit” often increase taxes and expenditures. The authors find that governor term limits deemphasize the role of political reputation for chief executives who are ineligible for re-election. Consequently, in their last term, governors have fewer incentives to serve the long-range interests of voters.

CONCLUSION

Economic and social science research generally finds that investing in K-12 education and postsecondary education— “human capital development”— and investing in infrastructure— “physical capital development”— are the most effective public policies at improving economic growth. Fiscal sustainability through balanced budgets also allows governments to fund these investments and boosts business confidence. These conclusions are supported by the preponderance of country-level studies and numerous economic reports in the United States,

as well as by a majority of surveyed economists, academics, and corporate executives.

Other policy changes that have been proposed in Illinois would have mixed economic and social impacts:

- Peer-reviewed studies demonstrate that “right-to-work” laws have no statistical effect on overall employment in a state economy, but research does find that “right-to-work” tends to reduce wages, limit unionization, and redistribute wealth from labor to capital.
- A repeal of the Illinois Prevailing Wage Act would have no discernible impact on construction costs but would reduce middle-class construction worker earnings, increase worker reliance on government assistance programs, negatively impact apprenticeship training, and hurt the market share of local contractors.
- Reducing unemployment insurance and limiting program eligibility tends to reduce unemployment spells but also lowers the post-unemployment wages of workers because they have less time to find the “right” job match.
- Research indicates that reducing workers’ compensation benefits would have no role in boosting employment in Illinois.
- Raising the minimum wage would have little to no effect on total employment, but would reduce inequality and make housing affordable for hundreds of thousands of workers in the state.
- Providing economic development incentives and business subsidies would have little effect on economic outcomes, and numerous studies conclude that they actually reduce employment in areas because they come at the expense of other productive public goods.
- There is no evidence that limiting local government from increasing property taxes positively impacts per capita income growth, but a property tax freeze can negatively impact local economic

development if it reduces the quality of public schools or causes cuts to protective services.

- Studies on term limits for state legislators find that they are correlated with higher government spending and slower long-run economic growth, regardless of which party controls the legislature.

Elected officials in Illinois should consider these research findings in making policy decisions to improve the state’s economic performance and make Illinois an attractive place to work, do business, and live over the long term.

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