

Uncertainty clouds weak Illinois business climate

By Jim Nowlan

Even before the recession, Illinois was losing jobs while most states were adding them. One of the major factors in our weak business climate appears to be the state's political and fiscal uncertainty and instability of recent years. Rebuilding our state's battered image will be critical to making the state a place business wants to put jobs.

I talked recently with Moline-native and economic development expert Steve McClure, who said that neighboring states are "making fun of Illinois" as they circle like sharks to take away our jobs.

"People should appreciate that businesses don't have to stay here," noted McClure, who was named Distinguished Illinois Economic Developer for 2010 by his peers.

"Image and (business climate) rankings really matter," McClure said, "especially for CEOs." And on these somewhat subjective indicators, Illinois places in the middle to low ranks. *CEO* magazine recently gave Illinois among its lowest marks, with a D+ for taxation and regulation. *Forbes.com* has ranked Illinois as low as 44th and as high as a middling 24th on its recent annual business climate reports.

The cost of doing business is, understandably, a fundamental factor in any business decision to stay, add jobs, or move. Illinois' business taxes are neither high nor low overall. But the costs of workers' compensation (for payments to persons injured,

some would say allegedly injured, on the job) are among the highest in the nation, while neighboring Indiana has the lowest rates in the nation.

In 2008, Illinois had a workers' compensation premium index rate of \$2.79 per \$100 of payroll while Indiana's was just \$1.23. The difference has grown since then.

I asked a Kankakee-area businessman, who asked not to be named, why he was developing all his new stores in Indiana and not in Illinois.

"Workers' compensation rates are the first and foremost significant difference," he said. The successful businessman went on to note that the regulatory environment in Indiana is "much easier to work with." For example, building code approval is done through one easy-to-work-with office in the state capital whereas in Illinois approval is done at the city or county level, "which is a roll of the dice."

Doug Whitley, president of the Illinois State Chamber of Commerce, says he receives emails from members frequently that tell him, for example, "I don't want my new plant in Illinois," and "I'm going to be expanding my plant. Indiana and Wisconsin are all over me, begging me to move to that state, but I haven't heard from Illinois."

Illinois has some pluses. McClure declared that Illinois' number one advantage is its work force. "We have good people coming out of our colleges and universities." Unfortunately, most engineers graduated from the University of Illinois' distinguished "engine" college take their first jobs out of state.

Every state offers incentives to businesses to stay or relocate in the state, but Illinois' array of state and local incentives is more limited than that of other states.

"Missouri has become creative in its incentives," said McClure. That state offers to refund a percentage of pay-roll to new companies for their investments in new jobs.

Many states including Illinois offer tax credits for such investments, but new companies often don't make any profits for a number of years, so the credits languish.

Yet all said, McClure and others with whom I spoke kept coming back to the importance of stability and predictability in a state's fiscal and business environment.

Business makes decisions for the long term and they need to know, the best they can, what to expect. In the first years of the Blagojevich governorship, as illustration, the governor proposed a big gross receipts tax on business. The tax never was adopted, but it is still used as an example of what could happen in Illinois. Businesses have opted away from Illinois on the sole basis of this tax proposal which never happened.

McClure thinks that Illinois could even adopt a tax increase, along the lines of Gov. Pat Quinn's proposal to boost the income tax 1 percent in the rate, and business could live with it, *if* they thought the change would result in predictability and stability for the state's business climate.

So the big challenge for Illinois is to overcome our image as a corrupt, unpredictable, unstable state. Gov. Quinn has four years in which to prove that he can settle things down—for the sake of our economy.