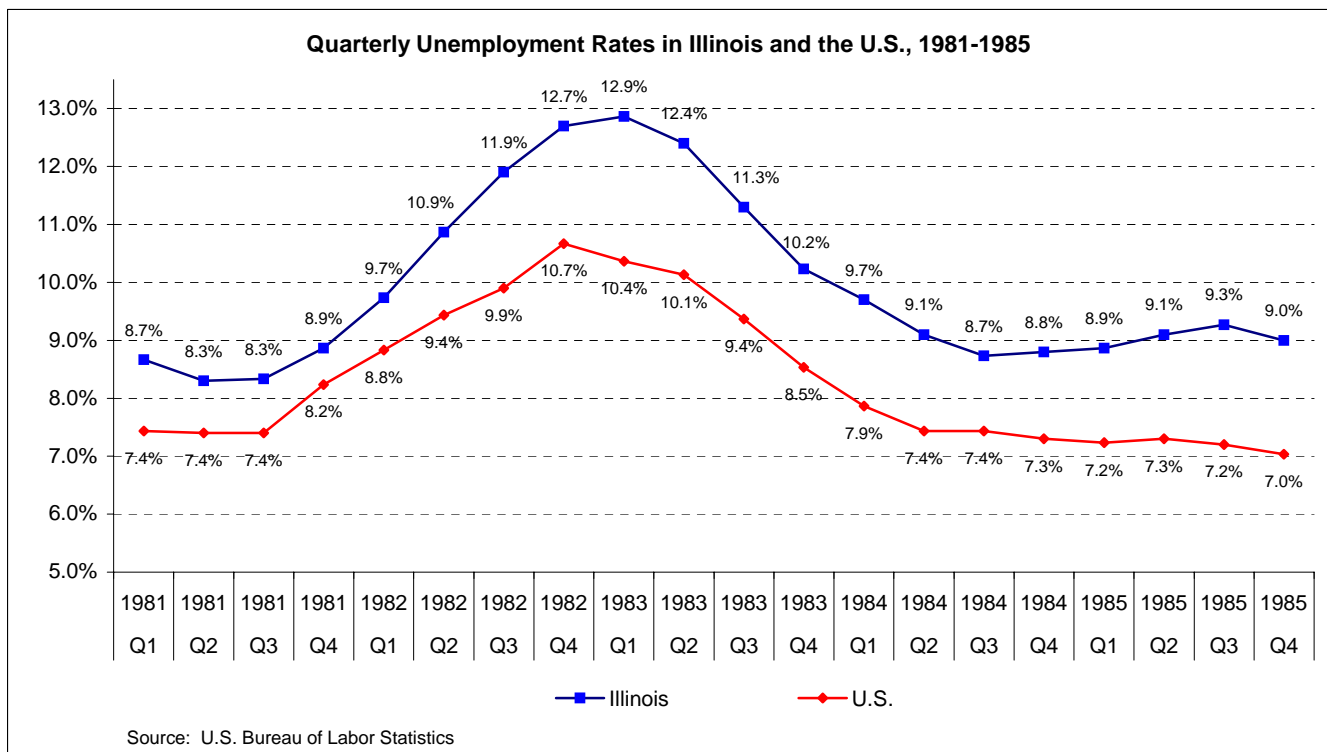


RAISING TAXES DURING A RECESSION

AN ILLINOIS STORY

In January 1983, Illinois was in the depths of a severe recession. Unemployment in the state had reached 12.9 percent, substantially higher than the current rate of 11.5 percent. Nonetheless, the General Assembly and the Governor instituted a temporary 18-month income tax increase to bolster state revenues. The individual income tax was raised from 2.5 percent to 3 percent and the corporate income tax from 4 percent to 4.8 percent.

During the first quarter of 1983, the state's unemployment rate was 12.9 percent, up from 8.3 percent in mid-1981. By the third quarter of 1984, after the income tax surcharge had expired, unemployment had fallen to 8.7 percent — a drop of more than 4 percentage points. Over the same period of time, nationwide unemployment declined from 10.4 percent to 7.4 percent. There is no indication that the tax increase had an adverse impact on the state's economy. The recovery in Illinois was shaped primarily by macroeconomic conditions, not by changes in state tax policy.



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