



# Executive Summary

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The aim of this plan is to ensure that by January 1, 2005, Indiana will have the fastest growing economy in the Midwest. This strategic plan details how we will break away from competitor states by focusing on quality economic growth and performing government functions exceptionally well. If we follow this plan, Indiana will be the best location in the Midwest for businesses and families. By 2016, its bicentennial, Indiana also will gain world renown for its free enterprise, smart government, quality education and livability.

Indiana has made tremendous strides since its first strategic plan for economic development. It has met two important goals set forth in 1983 and supported by successive administrations. First, between 1986 and 1998, jobs have grown faster than the U.S. average. Second, since 1986, the unemployment rate has been below that of the nation. When those goals were set, Indiana was reeling from the effects of severe recessions in 1980 and 1982. Business and government made hard choices, reinvigorating Indiana's manufacturing and agriculture base, improving productivity, modernizing facilities, training workers, and investing in communities.

As the 21<sup>st</sup> Century approaches, the next challenge is to respond to the realities of a "New Economy" – one shaped by global competition, new market opportunities, technological change and deregulation – and to ask some important questions. In the '80s, the state capitalized on its traditional industrial strengths to the extent that manufacturing is now even more concentrated than in the rest of the United States. But can we rely on this mainstay alone? We have become the home of frontier industries like medical devices and pharmaceuticals. How can we increase growth companies and frontier industries? Much depends on a willingness to act. The Hoosier economy is good, people are employed in record numbers, exports and foreign direct investment are strong and growing, and inflation is low. Why change now?

Threats to Indiana's future prosperity are now very real. Indiana's industrial mix, especially the dominant role of durable goods manufacturing, makes it vulnerable to economic downturns. It has fewer fast growth industries than many other states. While Indiana's cost

**Our aim:  
Be the best  
location in the  
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**Break away growth will come from both mainstay and frontier industries, with emphasis on high growth, high pay companies.**

**It will occur because Indiana creates a climate conducive to outpacing U.S. growth, makes focused investments and performs government functions exceptionally well.**

compensate for a decline in real wages and a gap in per capita income (compared to the U.S. average). Indiana workers will need to increase their education and training to adapt to the advancing technology and practices of the workplace. Companies are demanding higher knowledge and skills of their workers. Global competition and world financial crises may further increase pressure on Hoosier companies.

The economy on the horizon will be fast-paced, rewarding innovation. Technology will continue to change rapidly. Only through high performance and innovation will Indiana gain a competitive edge that is sustainable for the next 20 years.

Indiana's economy must outperform other Midwest states and the nation. Our vision must be bold and our goals must raise the bar substantially if we are to improve Indiana's standard of living. Perhaps most importantly, we must have the tenacity to stay the course, regardless of short-term fluctuations in the economy. The only way Indiana will be able to compete in an increasingly cost competitive marketplace is to add greater and greater value to its various goods and services over the long haul.

This plan charts a course for break away growth. The competitive pressures of the 21<sup>st</sup> Century will require Indiana's mainstay industries to increase productivity, expand markets and add corporate and research functions. At the same time, the state must increase its proportion of high growth, high pay companies that develop cutting edge products and services in both mainstay and frontier industries. State government can best contribute by creating a climate that is conducive for growth, by making focused investments, and by performing its functions exceptionally well.

The state will focus its efforts on five areas: developing workforce skills; fostering growth companies; improving infrastructure and advanced logistics; leading through "smarter" government; and maxi-

**The data, facts and charts presented in this document can be found in greater detail in a companion document, the *Fact Finder*. To obtain a copy of the *Fact Finder*, call the Indiana Economic Development Council, Inc. at (317) 631-0871, or visit our Web site at [www.iedc.org](http://www.iedc.org).**



# Why Does Indiana Need to Break Away?

Indiana is enjoying the fruits of a manufacturing renaissance – new manufacturing plants, low unemployment, record-breaking exports and increased foreign direct investment. Why, then, does Indiana need to break away from other states? Why do Hoosiers need to break away from the strategies that have served them so well in the past?

- B **Indiana needs strategies that enable it to get ahead.** Hoosier median household income recently climbed up to the U.S. average, while per capita income was last at the national average in 1965. Inflation-adjusted wages and salaries have increased 0.8 percent since 1981, while they have increased 10.5 percent nationally.<sup>1</sup> Indiana's economic development strategies and programs have served well for addressing job creation challenges. The state needs enhanced strategies to move ahead in wealth creation – personal assets, community wealth and business prosperity.
- B **Global competition requires innovation.** With the rapid expansion of manufacturing and agriculture production around the world, more of what Indiana does can be done at competitive prices elsewhere. In order to prosper, Indiana companies must specialize in high value-added products and services, and they must become models of efficiency and innovation.
- B **Our industrial base, while well suited to the 20<sup>th</sup> Century, needs enhancement if Indiana incomes and job growth are to break away from other Midwestern states.** Mainstay manufacturing and agricultural industries will continue to be a cornerstone of Indiana's economy. At the same time, cutting edge growth companies – those that address new market opportunities within both traditional and frontier industries – must expand if we are to increase incomes and opportunities for job advancement substantially.
- B **High pay jobs in the 21<sup>st</sup> Century will reward knowledge and skills.** Many production and service jobs do not necessarily require a formal degree, but they do demand increased levels of skill in technology, problem solving, teamwork and communication. While Indiana has an enviable higher education system, its technical and vocational system and the K-12 system need to be strengthened to meet the highest standards of performance and to graduate the highest quality of workers.
- B **Indiana's economic development system must be fully geared up for the highly flexible requirements of the 21<sup>st</sup> Century.** Better coordination of development programs now scattered throughout several agencies is needed, especially in terms of the permitting process. State-level programs need the computer interfaces, flexibility, customer service and demand-side savvy to respond to the needs of a fast-paced, rapidly changing economy.

<sup>1</sup> See Appendix I for more information.

**Indiana's cost of doing business is well below competitor states – the 17<sup>th</sup> lowest in the nation.**

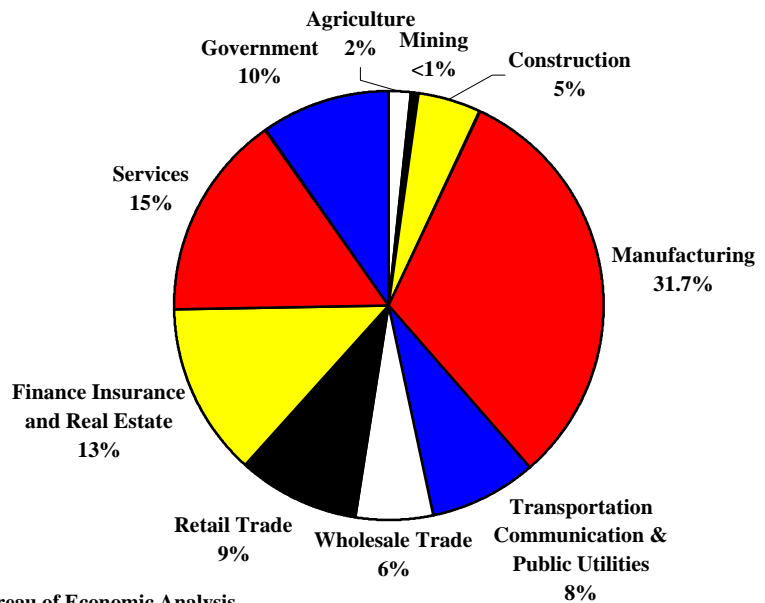
**Likewise, the state's cost of living is only 92.1 percent of the U.S. average – the 14<sup>th</sup> best in the nation.**

Indiana faces an imminent economic transformation far more challenging and fundamental than its economic turnaround during the '80s.

**Yes, Familiar Industries and the Business Climate have Created a Strong Foundation**

Mainstay industries – manufacturing, agriculture, insurance, trade and distribution, and higher education – and a strong business climate remain critical to continued economic sustainability.

**Indiana's Economy in 1996, by Sector**  
(Percent of GSP)



Source: Bureau of Economic Analysis

- ⊞ In the '80s, Indiana companies had to improve productivity in order to survive, and they did, resulting in a remarkable turnaround in basic industries. Today, manufacturing remains the dominant sector of the economy, comprising nearly 32 percent of total output. While manufacturing's share of the national economy declined by 14 percent between 1982 and 1996, it held steady in Indiana, at a level almost twice the U.S. average.
- ⊞ The lean production processes and re-engineering of the '80s have led to a manufacturing renaissance. This resurgence has

reduced Indiana's unemployment rate to unimaginable lows: 3.1 percent as of January 1999. Manufacturing wages are a bright spot for Indiana. These wages have been steady, remaining between 10 and 12 percent above the U.S. average for over a decade. Manufacturing provides family wage jobs for many front line workers. There are jobs with very good pay in the manufacturing and construction industries for those workers possessing high skills.

- ⊖ Indiana has a steady supply of college graduates with the knowledge and technical expertise needed to attract high growth, high skill companies. The state is the 14<sup>th</sup> largest producer of college graduates in the nation. Its colleges and universities also possess the research capabilities uniquely suited for collaboration with companies that produce cutting edge products and services.
- ⊖ Investments are moving from states with high business costs to those with lower costs. Indiana is a beneficiary. Our 1997 rank by Regional Financial Associates, Inc. for "Cost of Doing Business" was 17<sup>th</sup> lowest in the nation, and well below competitor Midwest states.

### **And this Foundation Impacts the Effectiveness of Our Global Reach**

International trade, once considered a high-risk undertaking, is now becoming a core strategy for Indiana businesses. It also is a priority for the state's economic development efforts. We can no longer afford to view Indiana just in terms of the United States. Rather, we must recognize its position in the global economy and examine the threats and opportunities that such a position affords.

- ⊖ The world economy is on a long-term growth path (global downturns and currency problems notwithstanding). Economies around the world are rebuilding infrastructure, expanding utilities and adding telecommunications, manufacturing and mining. As countries industrialize, they need both our services and the capital and productive goods we make.
- ⊖ Global trade has diversified markets for our goods and services. Demand is currently high for agriculture, manufacturing, insurance, health products and advanced services. As a result, Indiana exports have averaged 19.6 percent annual growth since 1988, compared to the national average of 13.4 percent. During

**Indiana... "A symbol of the new Midwest: old industry, new success. America's once rusty manufacturing heartland has restructured, retooled and reinvented itself as the country's economic powerhouse."**

*– The Economist  
April 1997*

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**Hoosier exports are strong, bucking the national trend. During the first nine months of 1998, they exceeded the prior year by 2.9 percent, while the United States declined 1.1 percent.**

**Today's economy is incredibly productive and coldly competitive.**

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**To return Hoosier incomes to parity with the United States, Indiana needs to grow 20 percent faster than the national growth rate.**

the first nine months of 1998, Indiana exports actually increased by 2.9 percent while the U.S. rate declined by 1.1 percent.

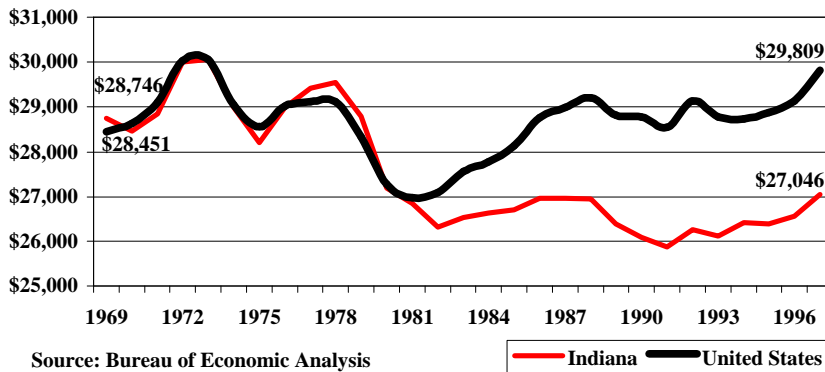
- B Manufacturing's aggressive pursuit of international trade has produced new, higher paying jobs. The Indiana Department of Commerce estimates that 195,300 manufacturing jobs are directly related to exporting. A 1996 Indiana University study commissioned by the Indiana Department of Commerce also found that export-related jobs pay 5 to 20 percent better than those not related to exporting.
  
- B The state's economic development efforts are aggressively pursuing foreign opportunities for both exports and foreign investment. Indiana now has 12 overseas trade offices, many of which are collaborative partnerships with other states that allow Indiana businesses to explore new markets at lower costs. The state has also expanded foreign direct investment. For example, in 1988, there were 32 Japanese manufacturing firms in Indiana; today there are more than 160. Likewise, employment by Japanese firms has increased from 7,863 to more than 31,000.
  
- B To sustain this track record, Indiana's firms must continue to add value through productivity improvements and innovation. Manufacturers and agricultural concerns are facing stiff competition. Current global financial crises may reduce short-term demand for goods. At the same time, producers worldwide are scrambling to gain market share and are investing heavily in training. The reality is that much of the production traditionally done in the United States also can be done cost effectively at facilities elsewhere. Indiana can create a niche by constantly moving "upstream" to more advanced products.

### **Nevertheless, Many Families are Trying to Make Ends Meet**

Despite our strong economy, many Hoosiers work hard to make ends meet. To improve its standard of living, Indiana can – and must – do better.

- B To improve Hoosiers' standard of living above the U.S. per capita income, we must focus on creating more high skill, high pay jobs. Indiana jobs requiring higher skills have been growing faster than the Midwest and United States (but from a smaller

**Average Wage per Job, 1969-1997**  
(1997 CPI Adjusted Dollars)



Fifty-four percent of Indiana’s jobs are in occupations with a median wage below \$10 per hour, or \$20,000 per year. According to IEDC projections, this statistic is unlikely to change by 2005. (A recent IEDC analysis shows that a family’s basic needs budget is \$17,000 to \$32,000, depending on family size and composition.)

- ⊖ Indiana needs to outpace national growth to return to parity on wages. As shown in chart above, this imperative is a significant challenge given that inflation-adjusted wage and salary growth since 1981 has increased 0.8 percent in Indiana, while increasing 10.5 percent nationally.
- ⊖ Proportionately, managerial and professional jobs are in short supply, with only 23 percent of Indiana jobs in this category compared to the U.S. average of 29 percent. To further complicate the situation, median wages for Indiana’s managerial and professional jobs are lower than the U.S. average in practically all instances.

### **Hoosier Skills Must Meet the Highest Possible Standards**

Businesses compete in a global economy that requires rapid response and competitive costs. To thrive, they can either utilize a low skill, low cost workforce and “dumb down” operations or increase value-added through highly skilled workers. The second course, while more demanding, will keep manufacturing jobs in the state, strengthen Indiana companies and improve incomes and wages.

**“In the 21<sup>st</sup> Century, creating work for people will not be viewed as a primary objective of government policy; fostering an environment for wealth creation will be.”**

**– Jerry L. Jordan  
President  
Federal Reserve Bank  
of Cleveland**

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**“Whatever made you successful in the past, won’t in the future.”**

**– Lew Platt  
Chairman and CEO  
Hewlett-Packard**

**Only 16.8 percent of Indiana's jobs require a bachelor's degree or higher... not surprisingly, 17.7 percent of Hoosier adults have a four-year degree.**

- B To be strong in manufacturing and attract technology jobs, we must increase the skills and educational attainment of incoming and incumbent workers. Currently, only 16.8 percent of Indiana's jobs require a bachelor's degree or higher, compared with 20.7 percent of all U.S. jobs. It is not surprising then, that only 17.7 percent of Hoosier adults have at least a four-year degree. Furthermore, only 8.7 percent of Indiana jobs require an associate degree or technical certificate. Many good paying jobs in Indiana require skills earned through sources other than formal college degrees (e.g., apprenticeship programs, vocational certificates and short course college "packages"). In the future, an increasing number of jobs will require education beyond high school – both college and non-college training.
- B Indiana needs high response, on-the-job training systems to advance skill levels at a rapid rate. As job tasks become more technically complex and require more problem solving and people skills, Indiana workers may lack the appropriate matching skills. A recent study by the Indiana Economic Development Council estimates that for every 100 high skill job openings, only 65 job applicants had the mix of skills required. While many of these jobs (76 percent) do not require formal education beyond high school, they do require continual training (much of which will occur in the workplace).

### **As We Meet the Demands of a Rapidly Changing World**

We are already experiencing many economic changes. In the new economy, however, the speed with which changes occur will be greater and the stakes of not achieving excellence will be higher.

#### **Most agree the 21<sup>st</sup> Century economy will be about:**

- Fast paced, open world markets;
- High rewards for entrepreneurial initiative;
- Rapid changes in technology;
- Rediscovery of self-help economics, individual responsibility and local initiative;
- Expectations for government to work "smarter";
- The reality of multiple careers requiring continual learning; and
- Wealth generated by high growth companies and industries.

In this environment, responsiveness, speed and agility are paramount. We must recognize the threats posed by our industrial structure. Businesses must be innovative to meet changes in the marketplace. Government must be targeted in its economic development efforts and it must be efficient.

- Indiana's industry mix makes it vulnerable to business cycles. Indiana has the highest percentage of Gross State Product (GSP) attributable to manufacturing of any state and its manufacturing concentrations are in highly cyclical industries: autos, steel, industrial machinery and fabricated metals. Fluctuations in national and global demand for durable goods rapidly reverberate in Indiana's economy.
- Our companies face significant technological changes. For example, Congress has issued new mandates to improve fuel efficiency by 2004 and 2011. Indiana's auto-related companies will need to innovate technology to meet these requirements. While daunting, this change could present opportunities for new industry clusters within the automotive sector, and more high skill, high pay jobs.
- Indiana created many of its economic development strategies and programs in response to the recessionary periods experienced in 1980 and 1982. Consequently, initiatives that evolved to focus on job creation have proven effective for that purpose. As Indiana shifts its focus toward improving its standard of living, program enhancements are needed. State economic development programs must improve in several ways: better electronic links to each other; faster processes (especially related to permitting); better focus on customer-friendly service; and greater emphasis on market-based solutions.
- Hoosiers' predisposition for limited government cannot be an excuse for avoiding bold collaborative action. Most importantly, this is not the time for the old adage, "If it ain't broke, don't fix it." Instead, with the job creation challenge behind us, this is the very time to fix the challenges of wage growth, advancement jobs and high skill, high pay jobs.

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# What is Break Away Growth?

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The previous section, “Why Does Indiana Need to Break Away?” highlighted the status of Indiana’s current economy, the pressures to break away from the past, and the rapid changes occurring all around us. A conclusion has been reached as a result of these factors: Indiana must achieve break away growth if its residents and businesses are to prosper in the 21<sup>st</sup> Century.

## What Does “Break Away Growth” Really Mean?

- B We need to outperform competitor states and countries.** This means creating a vision that calls for superior performance:
- be the best location for businesses and families in the Midwest; and
  - become world renown for free enterprise, smart government, quality education and livability.
- B We need to raise the bar substantially.** This means that we set goals to:
- improve wages;
  - increase the number of high skill, high pay and advancement jobs; and
  - enhance quality of life.
- B We need to focus on areas that will set us apart from competitors.** This means creating a mantra for the public and private sector, calling for them to:
- innovate services and products; and
  - pursue high performance in business, government and education.
- B We must have the tenacity to stay the course, even when the economy slows down over the short-term.** This means that we must:
- commit to a long-term strategy that will sustain growth over the next two decades; and
  - prepare for short-term setbacks.

## **A Vision for Superior Performance**

Our vision calls for Indiana to be the “best in the Midwest” while achieving global recognition in four areas of excellence: free enterprise, smart government, quality education and livable places. Given our state’s 10-year performance in the Midwest’s economic recovery, there is every reason to believe that Indiana can become the best location in the Midwest for businesses and families.

### **Our Vision**

**Indiana aspires to be the best place in the Midwest to...**

- B earn,**
- B work,**
- B play,**
- B learn,**
- B raise a family,**
- B enjoy the environment and**
- B build community.**

**And, to be globally renown for its...**

- B free enterprise,**
- B smart government,**
- B quality education and**
- B livable and healthy places.**

This vision is bold, but achievable, over the next two decades. Indiana’s economic development efforts must be focused and unrelenting. The efforts also must be sustained if we are to expand our economy faster than both the Midwest and the nation.

## Goals that Raise the Bar

Achieving this vision requires break away goals – not business-as-usual aspirations, but goals that focus on quality jobs and quality of life. Quality jobs are those that increase wages as skills increase, offer more opportunities for high pay and advancement, and increase productivity. Quality of life means enhanced social and environmental amenities. The two go hand-in-hand: workers with quality jobs choose residences in areas with good quality of life – areas with outstanding schools, a good record of safety and security, an unpolluted environment, ease of mobility, sound development planning, and a civil society.

Thus, **Quality Economic Growth in the 21<sup>st</sup> Century is less about counting jobs and more about creating wealth for a greater number of people – a higher standard of living and a higher quality of life.**

## 2016: Long Range Economic Goals

By Indiana's bicentennial in 2016, *Quality Economic Growth* will be achieved if Indiana meets the following goals:

- B **Goal 1: Raise per capita income and average annual wages above the U.S. average.**  
(Indiana currently ranks 29<sup>th</sup> strongest among the states, with per capita income at 91.6 percent of the U.S. average.)
- B **Goal 2: Attain the best purchasing power of any state in the nation.**  
(Indiana's purchasing power ranks 29<sup>th</sup> strongest in the nation at 99.5 percent of the U.S. average; the consumer cost of living ranks 14<sup>th</sup> best at 92.1 percent.)
- B **Goal 3: Secure the lowest poverty rate in the Midwest.**  
(Indiana ranks fifth lowest in the nation and second lowest in the Midwest, with a poverty rate of only 8.6 percent.)
- B **Goal 4: Bring productivity above the U.S. average and rank as the best in the Midwest.**  
(Indiana ranks 29<sup>th</sup> highest in the nation and fifth highest in the Midwest at 90.5 percent of the national rate.)
- B **Goal 5: Earn the highest livable places rating in the Midwest.**  
(Indiana ranked 22<sup>nd</sup> highest in the 1998 Morgan Quitno Livable State Index, and third highest among Midwest states.)
- B **Goal 6: Create the highest rate of growth in the number of high skill, high pay jobs in the Midwest.**  
(Comparative rankings are not available. The IEDC plans to undertake this effort during 1999-2000.)

### 1999-2005: Intermediate Milestones

Progress toward Indiana's goals will be measured against intermediate milestones that focus on improving workforce skills, expanding infrastructure financing, increasing the number of high growth, high pay companies and striking a balance between metropolitan and rural growth. The IEDC Executive Committee will set milestones in Spring 1999. By that time, the General Assembly will have completed its Fiscal Year 1999-2001 budget and its consideration of recommendations from the Governor's commission on tax reform. Furthermore, the consequences of the global financial turmoil on Indiana's manufacturing and agriculture industries will be better known.

## **A Mantra of Innovation and High Performance**

The bulk of U.S. economic gains are coming from advances in technology, improved productivity and increased worker skills and knowledge. Indiana is in a highly competitive world market. Only by synchronizing public and private efforts to focus on innovation and high performance can we create a higher standard of living and a higher quality of life.

Basically, there are three strategies for success in today's marketplace:

- compete on costs;
- compete on innovation; and
- compete on the "total solution" – providing an integrated package of goods and services and addressing customer needs before, during and after the sale.

These strategies are not mutually exclusive. Successful firms find niches that combine the elements to various degrees. Many companies reduce costs while adding uniqueness, sophistication, customization, improved quality, and convenience or follow-on services.

The same strategies apply to states and localities. Indiana has traditionally enjoyed competitive advantage based on its location and low cost of doing business. With increased global competition for low cost standardized production, innovation becomes critical to adding value. In short, Indiana must compete on cost, quality and innovation.

Greater attention to innovation and high performance also reduces Indiana's vulnerability to economic downturns by broadening the industry base. The strategy produces more job opportunities for Indiana's surplus of college graduates who leave the state for employment opportunities elsewhere. Furthermore, a focus on innovation and high performance leads to more "total solutions" and radical changes in government services and public education, making it possible to be the "best in the Midwest."

**It is imperative for Indiana to pursue a wealth creation path that focuses on innovation and high performance.**

## ***Innovation-led (def.)***

**Processes and supportive environments that lead to rapid and repeated improvements in technology, management systems and employee skills. Innovation is the means by which value is added to products and services, distinguishing them in the marketplace.**

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## ***High Performance (def.)***

**Business practices that use workers' knowledge and skill to create competitive advantage in cost and quality. Applies equally to the private sector, government and education.**

**Regardless of short-term economic contractions, Indiana must continue to focus on the long-term: innovation-led, high performance growth.**

### **The Tenacity to Stay the Course**

No strategic plan is complete without consideration of downside possibilities. What if Indiana experiences a significant recession or contraction (a possibility given today's global financial problems)?

In 1998, Indiana's economic outlook was complicated by severe volatility in world markets. As of the printing of this document, more than one-third of the world's economy is in recession. A potential slowdown in Europe along with financial difficulties in Asia and Russia could spread to Latin America, then to the United States. A significant number of economists now speculate a 50:50 chance of the United States being affected in 1999. Much depends upon the degree to which Japan can recover from its seven-year recession, and the abilities of Brazil to recover from and China to avoid currency devaluation. These uncertainties could bring on a slowing Indiana economy over the next year or two.

While Indiana exports are not directly affected by difficulties in the hardest hit countries, declining world commodity prices have impacted agriculture. Most commodities are already at 10-year lows. A further downturn in prices could significantly affect Indiana's agriculture sector and rural counties, lowering farmland values and property tax receipts. Furthermore, as overcapacity in manufacturing prevails around the world, Indiana's manufacturing sector can expect continued price competition.

If Indiana's economy experiences a downturn during 1999–2000, proven job creation programs of the past may need to be deployed with greater commitment. At the same time, Indiana must continue to focus on the long-term: innovation-led, high performance growth. In fact, one of the most important ways for Indiana to sustain growth in an increasingly cost competitive marketplace is to add value to its various goods and services repeatedly.

**Transformation takes courage and commitment and involves risks.**



## How Will We Break Away?

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*Break Away Growth's* central message is this: “New and modified initiatives are urgently required if Indiana is to improve its standard of living.” To reduce vulnerability during recessions, Indiana must break away from over-reliance on its traditional economic base. To be globally competitive, Indiana must fully embrace the realities of accelerated innovation and the need for high performance in established and frontier industries, government, and education.

- B **We will improve the performance of mainstay industries – manufacturing, agriculture, insurance, trade and distribution, and higher education.** These industries are our economic powerhouse and the employers of the majority of Hoosiers. They will be the focus of continued efforts to improve performance and competitiveness.
- B **We will accelerate the development of frontier industries and high growth, high pay companies.** Agile, high growth, high pay companies in traditional and frontier industries offer opportunities to increase Hoosiers’ standard of living through high skill, high pay jobs. Indiana will look for ways to speed development of these firms.
- B **We will follow policies that create a sound climate for growth and will make focused state investments in five areas:**
  - developing workforce skills;
  - fostering growth companies;
  - improving infrastructure and advanced logistics;
  - leading through “smarter” government; and
  - maximizing our livable places.

## **Frontier**

### **Industry (def.)**

**An emerging industry built around cutting-edge innovation, a new market need or changing demographics.**

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## **Traded Sector (def.)**

**The goods and services traded outside a state's borders. In Indiana, the traded sector is primarily comprised of manufacturing, agriculture, insurance, wholesale trade and distribution, and higher education.**

## **Indiana's Break Away Course: Improve Mainstay Industries and Speed Development of High Growth, High Pay Companies**

Indiana's existing industry and occupational structures play an important role in determining how to move toward an innovation-led, high performance economy. Rather than dramatically altering the industry base, the best course is to maintain and build off existing strengths in mainstay industries. At the same time, Indiana will further improve its standard of living by increasing its share of high growth, high pay companies.

These growth companies may develop to satisfy a need within mainstay industries or their customers, or they may be in frontier industries. An example of the first type of growth company would be an automotive component manufacturer that develops or expands around cutting edge environmental technology. The second type of growth is found in Indiana's software industry, which grew by tackling new market niches; and in its burgeoning medical device companies, which responded to worldwide demand for superior health care.

### **B Improve the Performance of Mainstay Industries.**

Simply put, wealth creation involves creating value in goods and services traded outside a state's borders (the traded sector). Indiana's traded sector is dominated by manufacturing, which accounts for over 30 percent of GSP. Multiplying this by indirect and induced effects, manufacturing contributes over 50 percent of Indiana's GSP. If this traded sector falters, as it did in the recessions of 1980 and 1982, the whole state suffers. All of Indiana's traded sector industries face stiff national and global competition.

This plan proposes several strategic investments to improve the performance of its traded sector:

- Increase worker productivity (*see Growth Booster #1: Learning a Living*);
- Strengthen Indiana's already outstanding distribution systems (*see Growth Booster #3: Improving the Crossroads with Infrastructure and Advanced Logistics*);
- Improve the state's information systems and create very efficient government regulation (*see Growth Booster #4: Leading the Way with Smarter Government*); and

- Provide customer-friendly government services (see *Growth Booster #4: Leading the Way with Smarter Government*).

#### **B Speed Development of High Growth, High Pay Companies.**

On average, high growth companies pay better, employ more highly skilled workers, export greater amounts, spend more on research and development (R&D), and provide better worker benefits and job satisfaction. While Indiana has several concentrations of high growth, high pay companies, e.g., Elkhart, Warsaw and Indianapolis, the state's future vitality depends on having many more of them. Expanding the number of high growth, high pay companies in promising industries like biotechnology, healthcare, information technology, advanced business services, environmental technology and services, advanced logistics, and the burgeoning learning industry is a logical extension of Indiana's existing economic base. In addition, high growth, high pay companies are forming within Indiana's mainstay industries, e.g., companies that develop software for manufacturers.

*Break Away Growth* proposes the following strategic investments to accelerate the development of high growth, high pay companies:

- Provide incentives to form start-up capital funds (see *Growth Booster #2: Fueling Growth Companies*);
- Accelerate spin-offs of new ventures from the R&D pipeline (see *Growth Booster #2: Accelerating Development of Growth Companies*);
- Encourage networking among firms (see *Growth Booster #4: Leading the Way with Smarter Government*); and
- Improve quality of life to attract and retain highly skilled workers (see *Growth Booster #5: Creating Livable and Healthy Places to Live, Work, Play and Raise a Family*).

### **State Policies and Investments Create the Climate for Growth**

Indiana's approach to government is well suited to reaching the goals set forth in this plan. Philosophically, Indiana is fiscally conservative. Its residents value limited government, moderate taxes, low debt, community initiative and free enterprise.

### **High Growth, High Pay Companies (def.)**

**Those firms growing sales and earnings at an average of 15 percent per year, or better, with average wages above industry benchmarks.**

## ***Smarter Government (def.)***

### **Requires three innovations:**

- **finding ways to perform exceptionally well;**
- **implementing performance-based and high accountability designs for public services; and**
- **finding solutions that minimize or eliminate the role of public bureaucracies.**

This plan recognizes five major economic functions of state and local governments:

1. Provide a sound, fair and competitive tax and regulatory climate;
2. Produce efficient and excellent basic infrastructure and public services;
3. Foster trust and collective purpose by governing and planning in an open and fair manner;
4. Compete with other states and countries by creating attractive environments in which businesses and residents thrive; and
5. Intervene for strategic purposes and for limited periods of time to improve and correct market weaknesses, and to advance market solutions.

Indiana's fiscal policy should continue to be deliberately conservative, especially given the volatility of national and international markets and the current stage of the business cycle (it has been eight years since the last recession). A healthy fiscal climate is a precondition for business confidence in the state. Thus, maintaining sensible budget reserves and continuing to buy-down state pension liabilities (Indiana's only fiscal vulnerability) makes for sound economic strategy. In keeping with that conservative approach, this plan assumes that state funding for traditional economic development – programs that provide direct one-on-one subsidies and technical assistance to businesses, communities and individuals – will not grow.

Sound fiscal discipline demands that public funds must shift from the old grant-in-aid approach to a self-help approach. Grants are not the preferred tool for financial assistance. Rather, public policy must move toward the use of loans or loan guarantees, or better still, loan loss reserve pools.

The initiatives in the pages that follow focus on investments that state government and its partners can make to create a climate conducive for quality economic growth. These investments center on preparing the workforce to meet the skill demands of industry; accelerating development of growth companies; capitalizing on our location advantages by enhancing infrastructure and advanced logistics; innovating and improving government functions; and improving quality of life.



# Initiatives to Launch Growth

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## **Growth Booster #1: Learning a Living**

Marketable skills and a strong work ethic create wealth.

### **Competitiveness in Context:**

Education and training of the workforce has become the No. 1 competitiveness issue in economic development. Businesses make investment decisions based on both current workforce skills and the education and training system's capacity to deliver skills in the future. Indiana has mixed performance in this area. A public high school graduation rate of 70.1 percent brings Indiana's ranking to 31<sup>st</sup> in the nation. Higher education attainment of Hoosier residents is much lower. Only 17.7 percent of adults who reside in Indiana have completed four years or more of college, ranking the state 47<sup>th</sup> in the nation. In part, this attainment rate is due to the lower proportion of Indiana jobs requiring a four-year college degree.

The educational profile is a legacy of an era when high paying manufacturing jobs, which required little advanced education, were plentiful. Today, and in the future, the workplace requires more formal education and higher technical skills. Many Indiana youth and adults are ill-prepared for the increasingly sophisticated demands of the workplace.

- Ⓑ Results of statewide tests, along with high school dropout rates, suggest significant room for improvement among Indiana's youth in the areas of academic achievement and basic skills.
- Ⓑ Indiana needs a well-structured career track for the non-college bound, and faces unmet needs for incumbent workers who require continuing skills training and retraining. In particular, the state needs convenient, targeted training for incumbent workers.
- Ⓑ Although Indiana does not have a community college system, it does have a large number and variety of education and training providers, capable of meeting demands for continual learning. To maximize educational opportunities and improve utilization of these services, innovative approaches are needed, e.g., short college courses that culminate in certificates and industry-crafted credentials. In particular, Indiana must increase information about providers and improve the accessibility and affordability of educa-

**Even 15 years ago, workforce skills were a pressing issue...**

**“Considerable concern was expressed about the limited supply of skilled and semi-skilled labor for medium and advanced technology industries.”**

**– A Strategic Plan for  
the Industrial  
Development of  
Indianapolis  
May 1982**

## Strategic Objectives:

- B Improve educational attainment levels of Indiana’s adult population to meet the U.S. average by 2016.**
  
- B Create a Hoosier workforce that is highly competent in basic workplace skills; possesses sought-after technical skills; and is capable of meeting the requirements of knowledge and information industries.**
  
- B Offer industry and residents a world renowned lifelong learning environment and training and human resources industry.**

## Policy Initiatives:

**Initiative # 1: Provide consumers with timely information on the performance and outcomes of all elementary, secondary and post-secondary programs.** Students, parents and adult learners need information to assess the performance of educational institutions. Considerable progress has been made in publishing statewide test results and school report cards. Data on placements and earnings for graduates of post-secondary and college programs should be available through a credible, independent source.

**Initiative # 2: Create a lifetime “Learning Opportunity Card.”** A debit/credit card would provide convenient and affordable access to financing continual learning and degree completion.

**Initiative # 3: Launch the “Indiana Career Learning Account.”** A line of credit would be established for each individual who leaves school after the age of 16. The account would combine financial assistance by employers, philanthropic organizations and state government.

**Initiative # 4: Offer tax incentives for training.** Additional investments by companies in training and educating their workforce would be eligible for special state tax treatment. The program would have an annual cap to limit the level of state liability and it would sunset in five years.<sup>2</sup>

**Initiative # 5: Develop performance-based customized training and enhance the Training 2000 program.** Enhancements to T2000, the state’s customized training program, would include 1) paying on new performance criteria, 2) increasing corporate investments to fund continuing worker education and training, and 3) encouraging groups of firms to form “skills alliances.”

**Initiative #6: Immediately reform the Indiana workforce development and training system in congruence with the recently enacted federal Workforce Investment Act.** This federal law restructures the current system and opens up job training to a greater number of workers. The state has a major opportunity to reform its workforce system to improve customer service, achieve economies

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<sup>2</sup> All the incentive programs proposed in this plan would have disciplines of accountability built in, emulating the sound design principles of the EDGE tax credit program. Individual awards would be subject to biennial evaluation.

## **Growth Booster #2: Accelerating Development of Growth Companies**

Well-managed, innovative companies in growing markets create wealth.

### **Competitiveness in Context:**

Indiana must increase its share of high growth, high pay companies if it is to realize its strategic goals of higher wages and incomes. These companies are innovative, producing cutting edge products and services. As a result, they tend to utilize technology to a greater degree and compensate highly skilled employees accordingly. State economic development and business assistance programs must focus on those firms that have the greatest potential for growth.

These companies are the engines of quality economic growth. Research demonstrates that firm size does not matter with respect to growth companies. Neither small nor large companies should be emphasized. Instead, characteristics that yield outstanding performance matter.

Talent and skills are critical for developing and sustaining growth companies. Indiana's colleges and universities graduate more knowledge workers than current industry utilizes, ranking 14<sup>th</sup> in the nation in terms of the number of college degrees conferred (per capita). With improved communication between business and academia, this ample supply can be fine-tuned to meet growing demand for managerial and professional occupations. Furthermore, extensive research capabilities within colleges and universities hold promise for better cooperative research that targets the needs of Indiana business. *Break Away Growth* views Indiana's educational and research prowess as a development opportunity.

Indiana's entrepreneurial climate is already evident regionally, but it must be strengthened statewide. In particular, business financing – a key ingredient to entrepreneurial success – needs attention. While some forms of conventional and venture capital seem in adequate supply, equity financing for small businesses is a barrier.

**Indiana ranked third in the nation in terms of the number of new business development projects during 1996.**

*– Area Development  
September 1997*

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**Indiana landed seven high-tech facilities during 1996, the fourth-highest number in the United States.**

*– Area Development  
September 1997*

## Strategic Objectives:

B **Increase Indiana's share of high growth, high pay companies by a total of 10 percentage points by 2009.**

B **Increase the number of small firms receiving catalyst equity financing by a total of 50 percent by 2005.**

B **Increase the annual net number of new companies to 4,000 by the year 2005.**

## Policy Initiatives:

**Initiative #7: Provide incentives for formation of local investment pools that take equity in small start-up ventures.** The Indiana Department of Financial Institutions would regulate these non-bank financial institutions. The pools would have a clear mission to invest in small- to medium-sized companies with equity needs in the range of \$200,000 to \$3 million.

**Initiative #8: Shift the state economic development budget over a five-year period so as to create a balance between incentives applied to mainstream companies and those given to frontier and high growth, high pay firms.** The state's incentive efforts should focus on fast-growth, knowledge-based, innovations-driven businesses. A task force can help advise the state and its development partners on how to implement this shift.

**Initiative #9: Broaden the eligibility for personal property tax abatements and sales tax exemptions to include R&D and computer and high technology equipment.** Communities need the flexibility to use tax abatements and other incentives according to their particular growth opportunities. Incentives need to be available for companies with high R&D investments, headquarters or regional headquarters, information industries, and advanced logistics and distribution firms (currently, most incentives focus on capital investment to the detriment of many knowledge-based firms).

**Initiative #10: Focus state economic development programs and activities around self-selecting industry alliances.** This plan calls for increased funding for the Strategic Development Fund, along with greater emphasis on performance-based awards and promotion of interfirm collaboration.

**Initiative #11: Create the "Innovations Development Contingency Fund" as part of the state's budget.** This fund would provide state matching dollars for major industry, university and other joint R&D ventures. It would enable Indiana to capture more federal R&D funds, which increasingly require state match.

## **Growth Booster #3: Improving the Crossroads with Infrastructure and Advanced Logistics**

Wealth is created by the fast, convenient flow of goods and information.

### **Competitiveness in Context:**

Indiana is strategically positioned as a crossroads state. Manufacturing success depends on the movement of goods and ideas as much as the making of products. Indiana's location in the center of the Midwest gives it a significant advantage, especially when paired with the state's advanced transportation system (highways, railroads, ports and airports) and its advanced telecommunications system.

Since Indiana's manufacturing economy is now fully globalized, superior transportation and logistics systems are critical. Indiana can position itself as a "global gateway" and continue its record growth in exports. The state's challenge is to capture its share of the growth in international trade, especially with respect to the "big emerging markets."

Speed has been added to the competitiveness equation above. "Agile logistics" will be the buzzword of the 21<sup>st</sup> Century. Indiana must develop its transportation infrastructure into a system that is seamless, allows for integration of the various modes, and provides specialized services to specific customers.

**Indiana is one of the top 25 inland places to locate a business.**

*– Business Facilities  
February 1998*

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**Indiana ranks 10<sup>th</sup> in the United States in terms of its volume of rail cargo.**

*– Plants Sites  
& Parks  
September/  
October 1997*

## Strategic Objectives:

B **Position Indiana as a Midwest gateway to global commerce, education and cultural exchange.**

B **Increase Indiana's international business activity by 5 percent per year. This activity includes exports, imports, foreign-direct investment and joint ventures.**

B **Grow Indiana's advanced logistics industry by 5 percent per year through 2005.**

B **Increase Indiana's infrastructure rankings to the top quintile of states by 2016.**

## Policy Initiatives:

### **Initiative #12: Make the highway bonding program permanent.**

Crossroads 2000, a highway bonding program initiated by Governor O'Bannon, is now underway and should be made permanent to provide long-term funding for highway improvements.

### **Initiative #13: Create a "State Infrastructure Bank" (revolving loan fund).**

Communities need greater access to lower cost infrastructure financing for both their traditional infrastructure – water, sewer and roads – and their advanced telecommunications systems. Creative approaches are called for to provide the state with funds to set up the Bank. In addition to revolving loans, the Infrastructure Bank would initiate credit enhancements such as a loan guarantee fund to help communities prepay debt service.

### **Initiative #14: Establish an alliance between industry and government to strengthen the advanced transportation and logistics services industry within Indiana.**

This initiative, led by the private sector, would provide a forum to address human resource needs and long range planning requirements. Indiana's transportation and distribution community is not well prepared to provide the advanced logistics demanded by industry. A forum for pursuing a common agenda is needed to identify needs and priorities.

### **Initiative #15: Provide a special fund for promoting Indiana to the world through high profile marketing initiatives over the next five years.**

As Indiana's global reach expands along with its foreign trade offices, it also needs to continually promote the state as a location for Midwest trade and commerce, as well as a potential location for the offices of foreign states, cities and large firms. This initiative calls for coordination of marketing and promotion efforts by the groups responsible for business development, international trade, travel and tourism, and natural resources.

## **Growth Booster #4: Leading the Way with Smarter Government**

Wealth is created by the following equation:  
government performing exceptionally well + local leaders and sub-state alliances formulating and implementing development strategies to their full advantage.

### **Competitiveness in Context:**

Free markets are becoming the preferred way of meeting the needs of consumers. This century has witnessed major experiments with alternative economic systems: socialism, communism and mercantilistic capitalism (the Asian style). All have, or are in the process of, giving way to open free enterprise backed by governments that protect property rights and provide basic public services and infrastructure. In this new environment, governments must be bold and resolute, as well as lean and keen.

Since Indiana already values limited government, moderate tax, low debt and local initiative, it is in an excellent position to aggressively pursue “smarter government.” In particular, greater flexibility and a wider range of options are required to maximize the efficiency and effectiveness of government functions. For example, local governments are bearing the brunt of “fend-for-yourself federalism” and must cope with increased demands with fewer resources. There is a need for increased authority and flexibility at the local level, especially with regard to fiscal home rule. Likewise, at the state level, a flexible, fast regulatory system could compel even more businesses to locate or expand in Indiana.

Sub-state areas are now becoming the locus of competitive advantage. Indiana needs to be prepared to cope with multi-jurisdictional challenges and to seize the opportunities that cut across political boundaries. Multi-jurisdictional approaches to solving problems related to infrastructure, transportation corridors, environmental quality, workforce challenges and a myriad of other issues will be required to achieve economies of scale, efficient financing and coordinated responses.

**Indiana’s  
business climate  
is among the  
top 15 in the  
United States.**

**– Site Selection  
October/  
November 1998**

## Strategic Objectives:

- B **Achieve and maintain the best business climate in the Midwest.**
- B **Ensure that Indiana has the best regulatory process in the Midwest.**
- B **Achieve the lowest cost of capital for state and municipal financing in the nation.**
- B **Achieve the highest ratio of government output to state and local expenditures of any state in the nation.**
- B **Ensure that localities have adequate financing capacity to address infrastructure and development needs.**
- B **Formulate and mobilize regional development strategies to cover the entire state by 2005.**

## Policy Initiatives:

**Initiative #16: Increase the number of options for, and the flexibility of, raising local government revenue.** The local government caps on the County Option Income Tax, the County Adjusted Gross Income Tax, and the County Economic Development Income Tax need to be raised. In addition, other local tax options should be explored. The property tax rate limit for cumulative capital funds should be increased.

**Initiative #17: Restructure local property tax limits to avoid penalizing growth communities.** Growing communities need to be able to capture anticipated property tax growth and utilize tax collections to meet the additional demands for planning, infrastructure and municipal services that result from rapid expansion.

**Initiative #18: Provide sub-county and county-level options to consolidate units and/or services of government (cities-towns-townships; cities-towns-county; county-county).** This initiative would provide a new legislative framework to consolidate services or units of government more easily.

**Initiative #19: Provide state funding to support sub-state and multi-jurisdictional growth and development strategies.** This initiative would provide matching funds for voluntary sub-state and multi-jurisdictional planning, including the development of regional high technology strategies.

**Initiative #20: Facilitate the simplification of regional boards and commissions to encourage regional development strategies that drive local projects and requests for state agency funding.** At the same time, incorporate a "negotiated investment strategy" that coordinates funding priorities among state development agencies (e.g., Indiana Department of Commerce, Indiana Department of Natural Resources, Indiana Department of Transportation, and Indiana Department of Environmental Management). The state should offer technical assistance and new processes to address the proliferation of overlapping and redundant sub-state organizations.

**Initiative #21: Establish a coordinated, automated one-stop permit process.** The state would create an automated, permitting process linking all agencies that provide facilities-based permitting. Undue delays would be eliminated through simultaneous, rather than

**Initiative #22: Fund the State Information Center as a line item and launch a pilot of the “Indiana Environmental Extension Network Model.”** The Center was established as a pilot project, and still continues under that designation. With requests now at 4,000 to 5,000 calls per month, it needs to be made permanent and enhanced through value-added Internet services. The Indiana Environmental Extension Network Model would provide businesses and municipalities with a Web-based backbone to enhance the transfer of information about regulations, technology, consultants and innovations.

**Initiative #23: Co-locate and consolidate all state development finance functions under the Indiana Development Finance Authority.** Reduce the number of grant-in-aid programs, move to higher leverage solutions, i.e., loans, loan guarantees and loan loss reserve pools, and move the programs to IDFA. Under this plan, IDFA would become the centralized organization for all development finance – a reorganization that would increase expertise and achieve economies of scale.

**“Indiana has worked absolute miracles in the past two decades or so in using public-private partnerships to create a pro-business environment in this state. It’s a really remarkable success story, and we can all take great pride in it.”**

**– Randall L. Tobias  
CEO  
Eli Lilly & Co.**

## ***Sustainable Economic Development (def.)***

**Maintaining or improving the standard of living, agricultural yields and industrial productivity of the state without compromising life support systems that make those results possible. The life support system includes: safety and security, natural resources, training and development, economic opportunity, and quality healthcare and housing.**

**Recognizes that some things must grow, e. g., jobs, productivity, wages, capital, savings, profits, information, knowledge, education and community trust. Other undesirable factors must not grow and will preferably decline, e.g., pollution, waste and poverty.**

## **Growth Booster #5: Creating Livable and Healthy Places to Live, Work, Play and Raise a Family**

**Adding amenity value and a “sense of place” creates wealth.**

### **Competitiveness in Context:**

The 21<sup>st</sup> Century will be about good places to live, not just good places to work. People will pay premiums to live in places that are safe, clean and in harmony with nature – communities that enhance the natural landscape, prevent pollution and are designed with convenience in mind. Skilled workers in high growth, high pay companies will demand good places to live.

Indiana communities rank high on many quality of life indicators, but the state falls behind its peers in attaining environmental and health standards. The well-being of the state’s residents directly relates to the quality of environmental conditions, healthy lifestyles and related factors. A new emphasis on “sustainable economic development” can harmonize the supply of resources with the objectives of robust economic development. Many corporations are already expressing a commitment to this concept. Federal and foundation funds are available to assist Indiana if we choose to become a leader in this area.

We are all aware of the plight of the rain forests. Due to short-term policies and population demands, farmers in those areas raze forests on land that can support only a brief crop cycle. In Indiana, achieving a livable and high quality of life will require policies that address sustainable economic development concerns such as rapid non-metropolitan growth, the loss of farmland and the need for orderly urban redevelopment.

In a recent statewide survey by Purdue University’s Cooperative Extension Service, two community issues stood out as priorities: 1) resilient, self-reliant, strong families; and 2) youth development. Increasingly, social and cultural goals must be integrated with economic aims.

## Policy Initiatives:

**Initiative #24: Further the work of the state’s Farmland Preservation Task Force, as related to urban redevelopment and non-metropolitan growth.** Review the work of the task force; thoroughly examine relevant laws, policies and regulatory practices; and act upon recommendations, as appropriate.

**Initiative #25: Expand tax increment financing for a variety of community development and environmental applications.** TIF would be expanded to allow creativity in financing downtown redevelopment, purchasing delinquent properties and remediating contaminated sites.

**Initiative #26: Create an aggressive brownfield development incentive package.** This proposal calls for developing a package of incentives adequate to spur a major clean-up initiative over the next five years.

**Initiative #27: Create a state-level “Sustainable Economic Development Corporation” to invest in and provide technical assistance to local areas seeking to link development related to the economy, the environment, recreation and conservation.** This private or public-private entity would: 1) provide planning services, act as a developer for communities, provide on-site consultation, and educate civic leaders in planning, negotiation and conflict resolution; 2) encourage recreational development in public facilities, utilizing public-private partnerships, as appropriate; and 3) provide expertise in conservation and ecological planning.

**Initiative #28: Provide for performance-based pollution prevention tax credits that would sunset in five years.** The General Assembly has considered pollution tax credit legislation for the past three years. The basic idea is to provide an investment tax credit to manufacturers that invest in new equipment and practices that reduce waste and minimize toxic emissions.

**Initiative #29: Coordinate a statewide Geographic Information System.** This initiative would call for creating a statewide clearinghouse; managing it through a coordinating council; and linking the GIS efforts of state agencies with local governments, universities and private consultants.

## Strategic Objectives:

**B Achieve the highest rating in the Midwest and rank in the top quartile in the United States in indexes rating livability, environmental standards and quality of life.**

**B Improve Indiana’s most detrimental environmental problems connected with development:**

- clean up brownfields;
- shift from pollution control to pollution prevention; and
- balance economic planning with ecological planning.



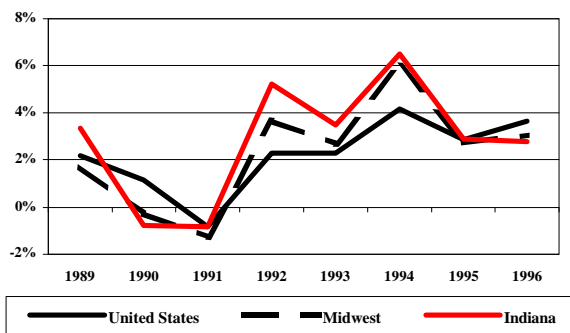
# Appendix I: Our Starting Point

## Statistics related to Indiana's economy:

Population (1998)	5.9 million
Employment (1997)	3.5 million total workers; 2.8 million are covered by unem-
Unemployment rate (January 1999)	3.1%, below the U.S. average
Business establishments (1996)	143,507
Per capita income (1997)	\$23,183, 91.6% of the U.S. rate
Hourly wages of production workers in manufacturing (1996)	\$14.32, 110% of the U.S. rate
Poverty rate (1995-1997)	8.6%, 5 <sup>th</sup> best in the nation
Gross State Product (1996)	\$155.8 billion
Manufacturing share of GSP (1996)	31.7% of GSP, 1 <sup>st</sup> in the nation
"Cost of Doing Business" (1997, Regional Financial Associates)	ranked 17 <sup>th</sup> in the nation
Exports (1997)	\$13.1 billion
State budget (FY1997-98)	\$13.7 billion
State economic development resources, Indiana General Fund (FY 1997-98)	\$55.6 million
Economic development resources, all public sources (state, federal, local)	approximately \$2 billion per
Livability index (1998 Morgan Quitno Livable State Index)	ranked 22 <sup>nd</sup> in the nation, 3 <sup>rd</sup> in

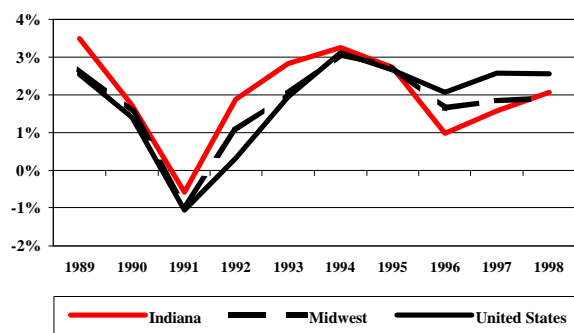
With respect to its Midwest neighbors, Indiana has been keeping pace, as demonstrated by GSP and employment growth. However, as the charts below indicate, Indiana has displayed a tendency to accelerate quickly out of a recessionary period (like in 1990-91) and slow somewhat in the later stages of the business cycle.

**Annual GSP Growth, 1989-1996**



Source: Bureau of Economic Analysis

**Employment Growth, 1989-1998**



Source: Bureau of Labor Statistics

## Conditions to Overcome

Achieving the plan's goals and milestones will not be without difficulty. Indiana faces four core challenges: improving income, wages and high skill, high pay jobs; creating sustainable growth; keeping the middle class from slipping into the category of "the working poor"; and shaping new patterns of development in both urban and rural areas.

### B Growth Challenge 1: Income, Wages and High Skill, High Pay Jobs.

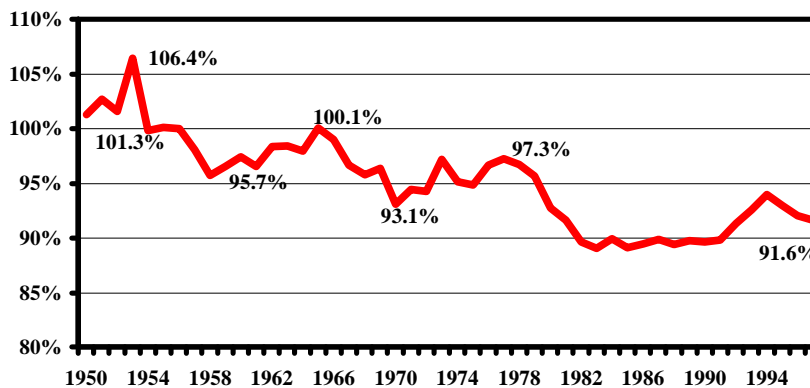
Over the past two decades, Indiana has been able to reposition itself after back-to-back recessions: the first in 1980, and the second in 1982. Two important goals set forth in 1983, and supported by successive administrations have been met:

- 1986-98: average job growth faster than the United States
- 1986-98: unemployment rate below the United States

Indiana's next economic turnaround challenge is to catch up in per capita income and real wages per worker, as depicted in the three following charts. In 1997, only 7 percent of jobs were in occupations with a median wage above \$20 per hour worked.

**Total employment is at 3.5 million, well above the previous peak of 2.7 million in 1979.**

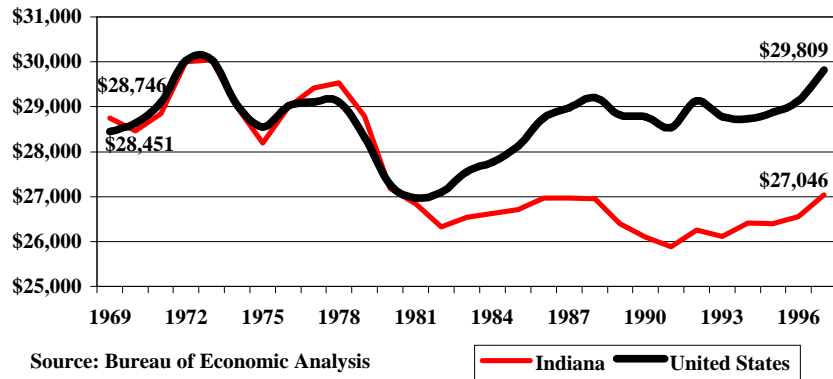
**Per Capita Personal Income**  
(Indiana as a Percent of U.S., 1950-1997)



Source: Bureau of Economic Analysis

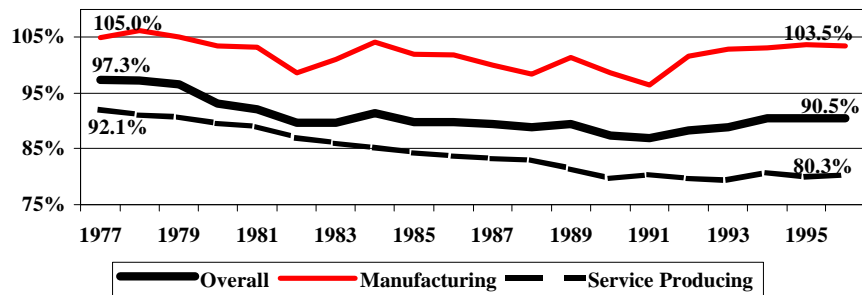
**During the 1990-91 recession, Indiana actually fared better than the nation, possibly due to previous restructuring in its mix of industries.**

**Average Wage per Job, 1969-1997**  
(1997 CPI Adjusted Dollars)



Break away incomes and wages have not yet materialized. Indiana's salaries and wages, adjusted for inflation, have increased 0.8 percent since 1981, while the U.S. equivalent increased 10.5 percent.

**Productivity by Major Sectors**  
(GSP per Worker, Indiana as a Percent of the U.S., 1977-1996)



**B Growth Challenge 2: Sustainable Growth.**

Indiana's mainstay industries are sensitive to national business cycles. As a general rule, the Indiana economy dips more than the nation during recessions, causing proportionately more layoffs here than for the United States as a whole. Reaching a level of productivity that sustains the expansion phase is an important safeguard. This was the case between 1991 and 1996, as shown in the chart above.

Now, excess manufacturing and farm capacity worldwide will put even greater pressure on Indiana producers and workers to improve productivity. We can only accomplish the task with constant tech-

**B Growth Challenge 3: Upward Mobility, the Working Poor and Poverty.**

Indiana is a middle income, middle class state. Forty-three percent of households had Effective Buying Income (a measure of disposable income) in the \$20,000 to \$50,000 range in 1996 – four percentage points above the U.S. average. This can be partly explained by a greater proportion of households with two parents and multiple job holders, a greater amount of overtime work, and good paying manufacturing jobs. Indiana’s poverty statistics also are impressive: only 8.6 percent of residents live in poverty, the fifth best ranking in the nation. Income inequality, on the other hand, has increased throughout the ‘90s, both for Indiana and the nation.

For 73 percent of Indiana jobs, entry requirements are on-the-job training. IEDC research indicates that number will remain virtually unchanged in the foreseeable future. Although the national situation is similar today, its figure will decline to 50 percent by the year 2005. Consequently, increasing skills through work-based training, short courses and distance learning will be an essential means of continued upward mobility for many Hoosiers well into the next century.

Meanwhile, Indiana’s schools have room for improvement in preparing young people for intensifying competition. ISTEP scores indicate that 30 percent of high school sophomores have not mastered English and language arts at the appropriate grade level, and 42 percent do not meet math standards.

**B Growth Challenge 4: Changing Patterns of Development.**

Hoosier families and businesses are spreading out across the state. The fastest growth is occurring in small- to mid-size cities and towns, and in counties on the fringe of metropolitan areas and along interstate highways. Since 1990, half of the fastest growing counties have been in southern Indiana.

This migration from the suburbs to non-metropolitan areas is part of a national trend. The shifts are prompted by concerns such as quality schools, safety, security and crime, and pollution.

The shifts have both positive and negative consequences. Rural areas that have struggled with economic development have many more opportunities. At the same time, Indiana is experiencing loss of farmland, decline in the core of cities, and increased demands on water, sewer and drainage infrastructure. Various farmland preser-

**Indiana is a middle income, middle class state.**

**In 1996, 43 percent of households had Effective Buying Incomes in the range of \$20,000 to \$50,000 – four percentage points above the U.S. average.**



## Appendix II: A Continuation of Previous Planning Efforts

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### ***Break Away Growth is a logical extension of previous plans:***

- ***In Step with the Future (1982-83): aggressive business attraction and expansion; reorganize state economic programs and agencies.***
- ***Looking Forward (1987-88): significant economic changes in products, processes, skills and markets; balance new business attraction with home-grown small business vitality.***
- ***INvesting IN INdiana (1992-93): restructure as a high performance economy; synchronize public investments in training and infrastructure with private investments in capital and technology.***
- ***Break Away Growth (1997-98): focus on those areas that will allow Indiana to get ahead and stay ahead; emphasize growth companies.***

This update is the fourth in Indiana's series of strategic plans for economic development prepared since 1982-83. As called for by legislation, these plans are prepared under the guidance of the Indiana Economic Development Council, Inc. The IEDC is a public-private partnership that brings business, government, labor and education to the table to reach consensus and develop commitment to creating a long-term strategic advantage for the state.

Indiana was the first state to create an independent strategic planning entity for economic development. The planning process, refined over 10 years, ensures consistency, continuity and credibility over time. In many other states, economic development plans are prepared by each incoming administration. While such plans may provide focus for a particular administration, they lack long-term perspectives and may even be overlooked by the next governor, especially if he or she is of a different political party. Indiana, on the other hand, has been able to stretch political lead times into economic lead times.

For example, in the '80s many of Indiana's competitor manufacturing states shifted development priority away from manufacturing in favor of the services sector. Indiana did not waver from the strategic importance of being a "maker and grower" state. Each successive strategic plan has proposed ways to strengthen Indiana's manufacturing and value-added agriculture economy. As a result, Indiana has been a leader in the Midwest's economic renaissance of the past 15 years.

A second example of the benefits of long-term planning centers on each plan's persistence regarding the importance of workforce development, improved vocational and technical education, and school-to-work transition. While controversial at times, Indiana has gradually made improvements to its core human resource strategy. Today, that strategy centers on preparing those leaving school and those in the workplace with the skills, retraining, attitudes and flexibility to ensure long-run prosperity in a world in which human capital is becoming the most strategic economic development asset.



## Appendix III: Our Planning Partners

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### **Strategic Plan Steering Committee:**

**Maclyn Parker (co-chair)**, Baker & Daniels, Fort Wayne

**Philip Rutledge (co-chair)**, Indiana University, Bloomington

**Larry Cummings**, consultant, Crawfordsville

**Carol D'Amico**, Hudson Institute, Indianapolis

**Katherine Davis**, Indianapolis

**Chuck Deppert**, Benefits, Inc., Indianapolis

**Kenneth Kobe**, Barnes & Thornburg, Indianapolis

**Phil Laux**, Chamber of Commerce, Fort Wayne

**Representative Paul Mannweiler**, District 87

**Mayor Sonya Margerum**, West Lafayette

**Thomas McKenna**, Indiana Department of Commerce, Indianapolis

**John Riemke**, Town Manager, Avilla and Albion

**Thayr Richey**, Strategic Development Group, Bloomington

**John Ryan**, Lieutenant Governor's Office, Indianapolis

**Roger Schmelzer**, Republican Leaders Office, Indianapolis

**Marilyn Schultz**, Indiana State University, Terre Haute

**Senator Vi Simpson**, District 40

**Joseph Slash**, IPALCO, Indianapolis

**George Sweet**, Brenwick Development, Carmel

**Amy Stewart**, Governor's Office, Indianapolis

**Marilyn Moran Townsend**, CVC Communications, Fort Wayne

*Indiana Economic Development Council, Inc.*

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