Decision 2020: Electing Indiana's Future

Economic Development

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INDIANA UNIVERSITY
PUBLIC POLICY INSTITUTE
Center for Civic Literacy

These pages examine four major economic issues facing Hoosiers:

- **What is economic development?**
- **Who should pay for economic development?**
- **When does inequality become inequity?**
- **Does Indiana need a population policy?**

WHAT IS ECONOMIC DEVELOPMENT?

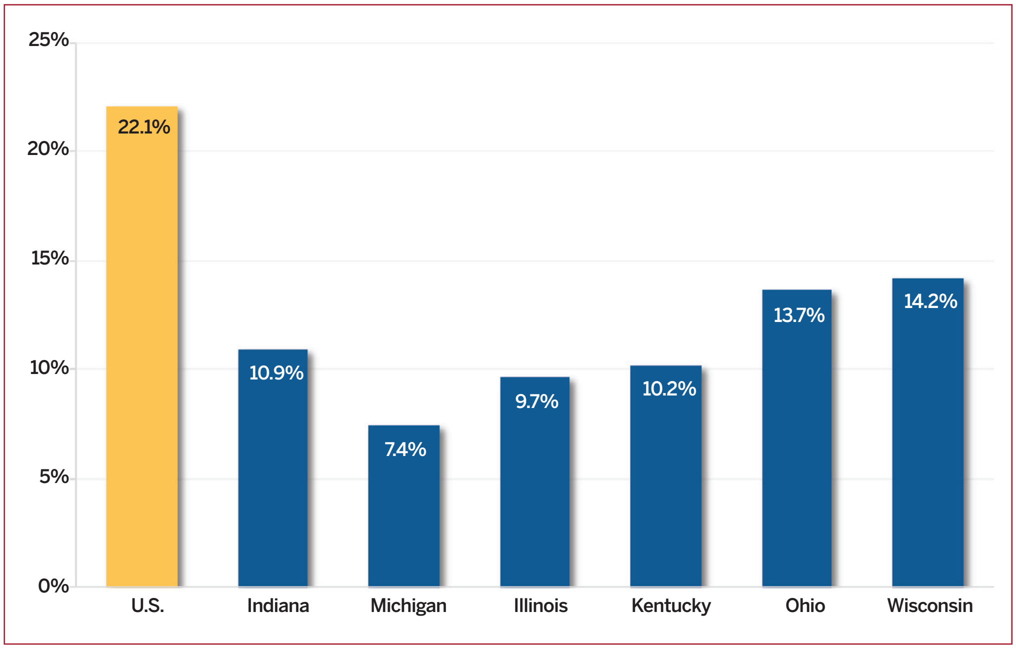
Economic development is not the same as economic growth

Growth is basically more of the same: another pancake house is desirable only because our population is increasing, and there are more mouths to feed. In contrast, development has a host of dimensions. Often it involves seeking new businesses or assisting existing businesses. It includes modernization that brings a community up-to-date. It means increasing the diversification of businesses to provide greater stability to income. Diversification can increase choices for consumers and workers. It can strengthen supply chains.

Yet, it is difficult to say if a project is growth or development when the goal is to provide jobs and/or increase wages.

None of these objectives escape controversy as different participants in an economy evaluate their perceived benefits and costs. But it's always best to start from a factual basis. Is the Indiana economy in trouble? In Figure 1, are we looking at growth or development?

Figure 1. Percent change in real gross domestic product, 2007–2019



Source: U.S. Bureau of Economic Analysis, National Income and Product Accounts, 2019

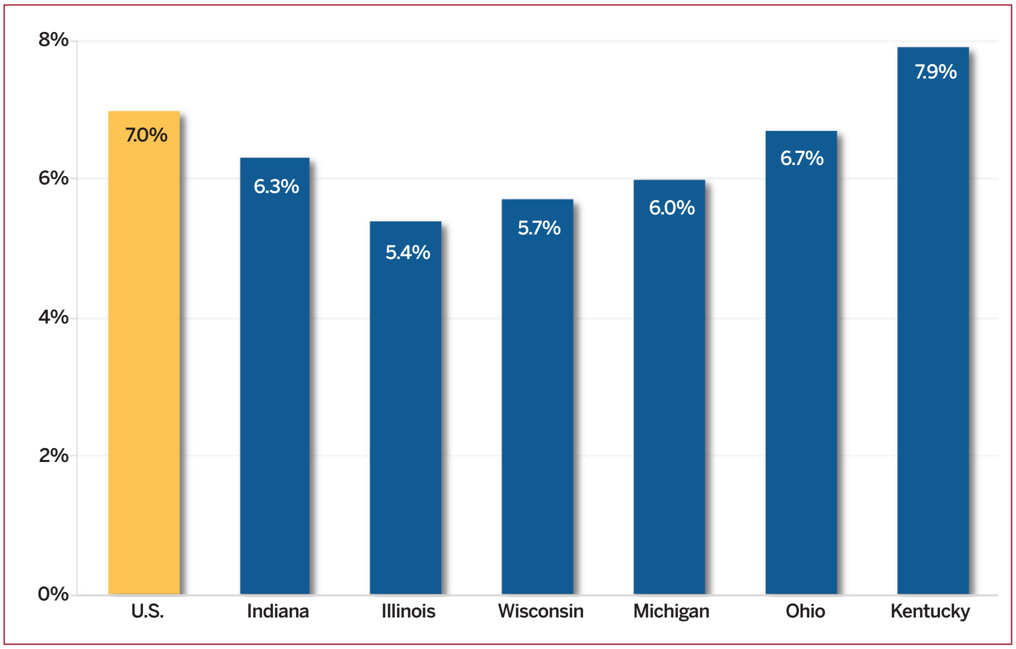
In terms of the value of goods and services produced (Gross Domestic Product–GDP), after adjustment for inflation, the United States grew twice as fast as Indiana from the year before the Great Recession to the year before the COVID-19 crisis. In comparison with our five neighboring states, two grew faster and three slower than we did.

The economic profile or composition of a nation or city is the percentage of the economy in each of its many sectors. What percentage was in manufacturing, retail, transportation, etc.? Changes in these percentages or shares of the economy are the result of new technologies and the dynamic concerns of consumers, businesses, and governments. The COVID-19 pandemic affected not just the growth of the economy but the shares of each sector. Was the increase in health care and the decrease for restaurants and bars temporary or permanent?

Figure 2 addresses the overall long-term changes among 21 major sectors of the economies of the nation, Indiana, and five neighboring states. Between 2007 and 2019, and the U.S. economy experienced a shift among its major sectors of 7 percent. This may seem like a small change, but the magnitude was 1 trillion dollars. With the exception of Kentucky, we and our neighbors each shifted by less than the nation. That lower level of internal change could be seen as a less dynamic economy than the nation.

Is growth dependent on becoming more like the nation, following the lead of the bigger and faster growing states? Figure 3 compares each of the six states with the national composition of Real GDP. Each state in the nation is different from the others in some respect. None has an amusement complex comparable to Orlando, Florida.

Figure 2. Change in the composition of the U.S., Indiana, and neighboring states' economies, 2007-2019

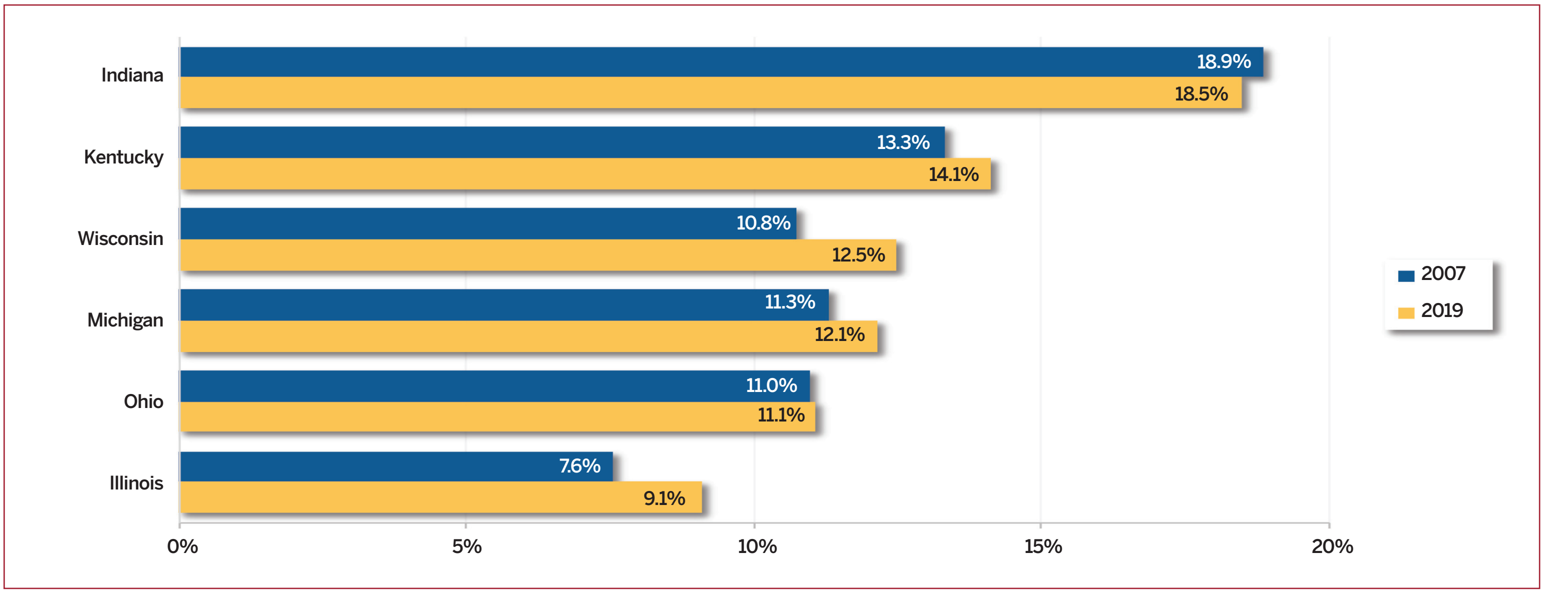


Source: U.S. Bureau of Economic Analysis, National Income and Product Accounts, 2019

Each of the six states, except Indiana, diverged from the nation's composition or profile of sectors between 2007 and 2019. Indiana alone grew closer by a small amount (0.37 percent) while remaining the least like the United States among all these states.

Is our change adequate? Our growth rate is slower than the nation. We are among the least dynamic states, and we are considerably different from the nation as a whole. What, if anything, is to be done?

Figure 3. Indiana and neighboring states' differences from the composition of the U.S. economy, 2007 and 2019



Source: U.S. Bureau of Economic Analysis, National Income and Product Accounts, 2019

WHO SHOULD PAY FOR ECONOMIC DEVELOPMENT?

If we believe that everyone benefits from economic development, then we might conclude everyone should pay. But it's clear not all development is so inclusive or there wouldn't be vigorous discussions about most projects.

Let's bring a new factory to town. The people buying the property, putting up a building, and hiring workers are doing it in the expectation of success. Those selling the property benefit by having cash in exchange for something they were not eager to keep. The people who own nearby property may rejoice in seeing that sale as an indicator of the value of their own property. However, they might be concerned about noise, traffic, water, air, and land pollution emanating from the new factory.

Workers who get jobs paying more than they were previously earning are beneficiaries. The companies they used to work for are now having to train replacements who may not be easy or costless to find.

Governmental units (e.g., the city, county, schools, libraries) that use property taxes might be beneficiaries, unless the revenue gains are pushed off into the future through some abatement that delays tax payments. Schools in particular may find enrollments increase without a corresponding increase in revenues. One study found the best new business is an oil refinery; lots of machinery to tax and few workers bringing children into the community.

Construction firms and workers are among the early beneficiaries of building a new factory, but less so if an old property is only being modified. If there is much growth in the labor force, suppliers to the factory, merchants, and others selling to new customers will benefit.

Critics often cite the dollars used by governments to subsidize such developments in terms of dollars per job. It's a very shallow way of measuring benefits. Yet, few specific efforts are made to capture some of the economic gains to offset any costs of the developments. Two very common approaches are tax increment financing (TIF) and subsidized bonding.

A TIF district is set up by a government unit—a city or county—which takes the added property or sales taxes from firms and or/businesses in the district and uses those taxes to pay for civic improvements in the district. For example, a road may need improvement to accommodate trucks serving the factory. That road may be paid for with new revenue coming from other property owners whose land is now worth more because of the factory or the road.

It sounds reasonable, but if there is no sunset provision, no end period for the district, the added taxes can be used for other projects in the district. Plus, the district boundaries may be extended to allow new projects at a sizeable distance from the original site.

If the company needs to borrow money, they may issue bonds that are treated as municipal debt and enjoy a lower interest rate. If the company fails, the city or county may be stuck with paying off the bonds. Which means the local taxpayers end up paying for a failure.

Grants to the arts are wonderful now that we recognize a wider set of options for economic development. But did you want your taxes used for a sculpture of twisted metal prominently placed downtown?

WHEN DOES INEQUALITY BECOME INEQUITY?

Not all inequalities are inequitable

Inequality means unequal. Inequity suggests a divergence from a standard with some moral authority. Inequality can be measured. Inequity requires some concept of justice or fairness.

The star pitcher on a baseball team is usually paid at a higher rate than a bench-sitter who is called only when needed to run for an injured player.

There are many measures of income. We'll look at median household income. A household may have several people earning money as well as several receiving government assistance (e.g., Social Security, unemployment, and disability payments). Along with dividends, interest, and rents, income is derived from many sources. Table 1 presents the median income of four groups, with half of the households above and half below the dollar amounts shown. The households with amounts below the median household income are labeled as Minority A households.

Table 1. Median household incomes, 2018

	All households	Minority A households	Difference (Minority A-all)
U.S.	$61,937	$41,511	-$20,426
Indiana	$55,746	$34,290	-$21,456
Difference	-$6,191	-$7,221	-$1,030

Source: U.S. Census Bureau, American Community Survey, 2019

It's a double whammy. The difference between the median income of all U.S. households and that of Minority A households in Indiana was $27,647. It doesn't matter if you calculate that amount via the red route or the blue route, the results are approximately the same: About 75 percent of the income differential is for being in Minority A and about 25 percent is for being a Hoosier.

Is low income a result of a history of unemployment, inferior education, or other individual conditions compared to the mix of employment opportunities where that person lives? Are these differences a result of an underlying inequity in society that can affect all persons or is it a systemic discrimination against Minority A?

DOES INDIANA NEED A POPULATION POLICY?

From 2010 to 2019, 55 of Indiana's 92 counties lost population. Going a bit deeper, 356 of Indiana's 567 cities and towns (i.e., incorporated places) lost population in the same period.

The changes have been going on for decades. There has been a shift from unincorporated places to cities and towns in the United States since the mid-19th century. It accelerated as the industrial revolution reduced the need for farm labor and jobs became plentiful in transportation centers. Once the automobile became dominant, city populations poured into suburbs. Then, as small communities grew and organized to manage storm and sanitary sewers, they incorporated as towns.

In 2010, Indiana's cities and towns had 66 percent of the state's population and accounted for 81 percent of state growth. The unincorporated areas of the state represented just over one-third of the population and less than one-fifth of the growth.

Of the 567 cities and towns, 79 percent had fewer than 5,000 residents and just 9 percent of the population. Another 15 percent of places had between 5,000 and 25,000 residents with 14 percent of the population. Finally, the remaining 6 percent of places (36 cities and towns) had populations of 25,000 or more and held 44 percent of Hoosiers.

Between 2010 and 2019, those 36 places of 25,000 or more residents accounted for two-thirds of the growth in the state's population. In Figure 4, we apply a shift/share analysis to Indiana's population growth. Imagine we had a policy of equal percentage gain for all areas of the state. That would have been a 3.7 percent increase for all 567 incorporated places and the unincorporated areas of each county.

The blue bars depict the population growth of each size group, if they met the uniform 3.7 percent statewide increase. That is, if they retained their 2010 share of the state's population. The red bars present the shift of residents to or from those places. Those places with populations above 25,000 enjoyed a shift of 53,750 toward them, with 18,910 shifting away from small places, plus another shift (not shown) of 34,840 away from unincorporated places. This presumes all migration has taken place before the calculation is made.

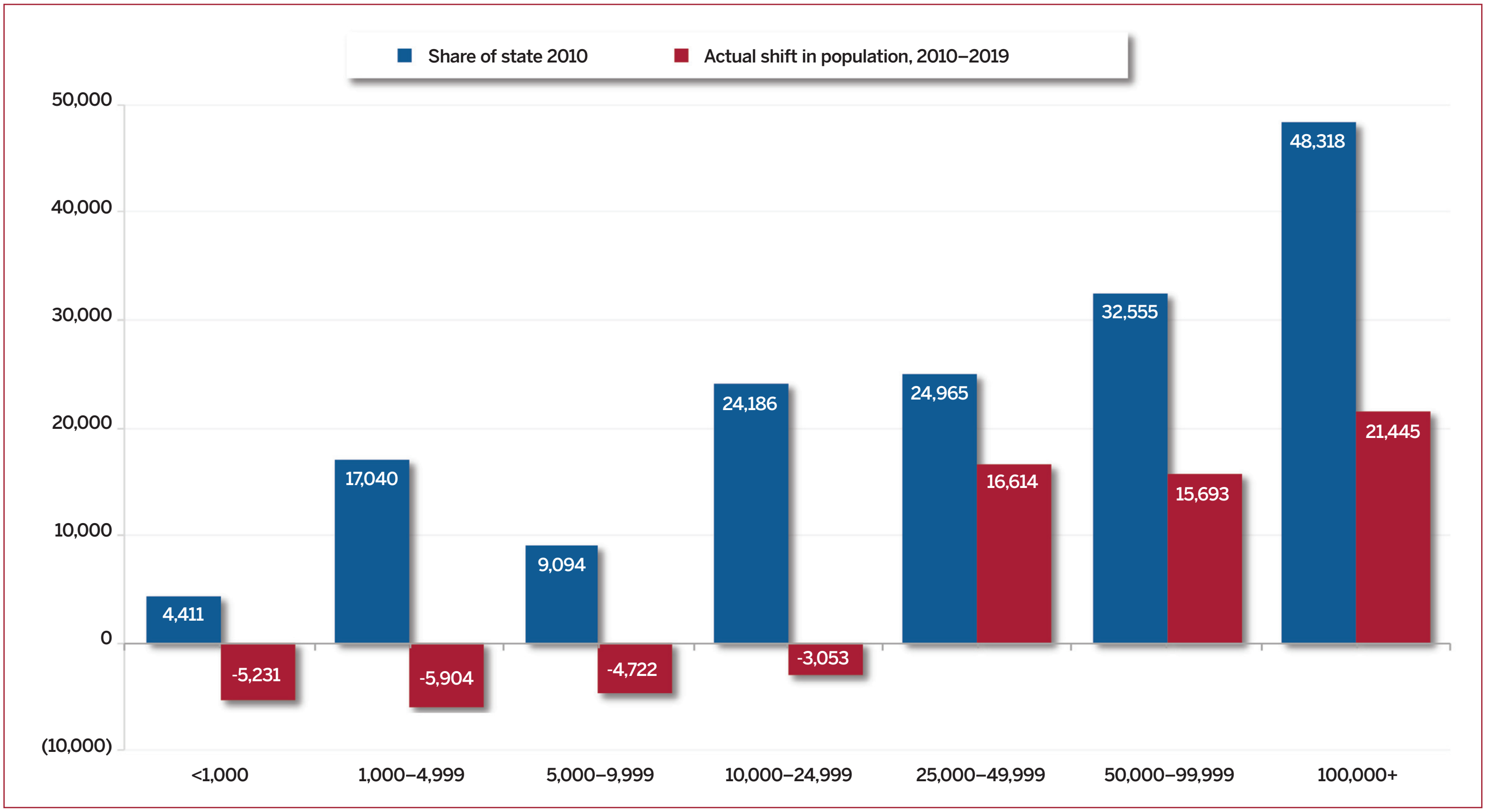
Should Indiana, or any county within the Hoosier state, have a population distribution policy that would encourage people to live in certain places and not in other places?

Should we find ways to encourage people to move to smaller cities and towns and to the unincorporated areas of our counties? This could be done by tax policy or quotas. It could be accomplished by improving schools, roads, and internet services in less populated areas. We could subsidize firms to grow in smaller places. Does society gain when a firm moves from one state to another, from one place within a state or county to another in that same jurisdiction?

Or should we let the market work, let people live where they choose, and let firms locate what they will where they will? It sounds good, except many people in places of all sizes don't want to see more workers or residents because of their concerns about congestion, crime, and other externalities.

Currently, we do some of everything, just enough to make everyone mad.

Figure 4. Change in population for cities and towns, 2010–2019



Source: U.S. Bureau of Economic Analysis, National Income and Product Accounts, 2019

Indiana University Center for Civic Literacy

The Center for Civic Literacy is a multi-disciplinary center. It was first established with support from an IUPUI Signature Center grant. It was created in response to recognition of Americans' troublingly low levels of civic knowledge, and to investigate both the causes and consequences of widespread civic illiteracy—the lack of basic knowledge needed to make informed public judgments. Our mission is to increase public understanding of our civic deficit and its effect on democratic decision-making, and to identify and promote the use of effective tools to help educators and others correct the problem. The Center for Civic Literacy fulfills its mission through scholarly research and publication, public teaching, and community-based partnerships.

Indiana University Public Policy Institute

The Indiana University Public Policy Institute produces unbiased, high-quality research, analyses and policy guidance to promote positive change and improve the quality of life in communities across Indiana and the nation. Our clients use our research to enhance their programs and services, to develop strategies and policies, to evaluate the impact of their decisions—and ultimately to help the people they serve. Established in 1992, PPI is part of the IU O'Neill School of Public and Environmental Affairs.

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Every four years, in conjunction with Indiana's gubernatorial election, the IU Public Policy Institute (PPI) sponsors a Gubernatorial Candidates Forum. This year's event will be broadcast by WFYI and other Indiana Public Broadcasting Stations, as well as available for viewing at go.iu.edu/Decision2020. The event is intended to further the mission of PPI and its Center for Civic Literacy (CCL) to produce unbiased, high-quality research, analyses, and policy guidance to promote positive change and improve the quality of life in communities across Indiana and the nation.

Cities and states today face significant issues and their elected officials have considerable latitude in addressing those issues.

In Indiana, the 2020 gubernatorial and legislative elections will determine how the state pursues policies in education, infrastructure, taxation, health care, environmental policy, and much more. These policies affect us in meaningful and sustained ways on a daily basis. In order to cast an informed vote, citizens must understand what the issues are, the candidates' approaches to those issues, and the legal and political systems within which they must make their preferred policies work.

CCL faculty and staff identified key policy areas facing Indiana in 2020, and enlisted experts in each of those areas. The resulting issue briefs provide policymakers and citizens with important context, background, and identify critical policy issues. Each brief is based upon research and analysis of available data about the state of Indiana, and includes comparisons with other states as well as national trends. Each guide also points readers to local and state level resources offering additional information on the topic.

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Lumina™ FOUNDATION

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