



Indiana, Ohio initiatives look to new economic sectors for growth

by *Tim Anderson*

The downturn in the national economy hit parts of the Midwest sooner and harder than it did other regions of the country. The impact of the economic blow also has been felt here longer. But like they have done in the past, this region's states are fighting back.

Lawmakers are trying to help businesses and workers along the way to recovery. Despite ongoing fiscal problems, several Midwestern states have implemented comprehensive economic development programs that aim to diversify and solidify their economies for the future.

In particular, policymakers want to address concerns about an overreliance on the traditional manufacturing sector of the economy. Five Midwestern states — Illinois, Indiana, Iowa, Michigan and Wisconsin — produce 18 percent of U.S. manufacturing output and 20 percent of the nation's durable goods. In each of the past five years, national manufacturing employment has declined. So while troubling, it is not surprising that parts of this region have suffered the most from the nation's slow-moving economy.

Much of the recent losses in manufacturing businesses and jobs could simply be part of a regular economic cycle. However, longer-lasting trends and realities also may be contributing to the problems.

"There are those who say that — owing to changing terms of trade throughout the world and the emergence of nations with abundant low-cost labor — the Midwest can no longer compete in manufacturing," Michael Moskow, president and CEO of the Federal Reserve Bank of Chicago, recently told attendees at a conference examining the future of manufacturing in the Midwest.

"But even with the facts before us, and with careful analysis and deliberation, we cannot and will not know whether this is the case for quite some time."

Lawmakers, though, have seen enough evidence to convince them that the time for their states to act is now.

"Every state in the nation is facing a migration of manufacturing," says Indiana Rep. Brian Hasler, a Democrat from Evansville. "As a state, we have to be rational about this. A lot of manufacturing is going overseas, particularly the lower-end jobs.

"We're either going to stay dependent on an economy that served us well in the past and see

it decline, or we're going to move into the new economy."

Ohio Republican Gov. Bob Taft echoed similar sentiments in a speech this summer.

"Ohioans can't compete making boots or bicycles anymore," he said. "We're in a new economic era. Traditional industries have departed, are declining or are severely threatened. We've lost thousands of traditional manufacturing jobs over the last 10 years. And unfortunately, many of these jobs are not coming back."

Earlier this year, Hasler and his legislative colleagues passed Energize Indiana, a 10-year legislative package that devotes more than \$500 million in state dollars to various economic development initiatives. Ohio leaders, meanwhile, continue to promote the state's Third Frontier Project.

Two states' plans for the future

Between July 2000 and July 2003, Indiana lost 92,200 manufacturing jobs. The state's unemployment rate has risen from 2.8 percent in September 2000 to 5.2 percent in September 2003.

Energize Indiana is an attempt to reverse the state's recent employment and economic trends.



Ohio Gov. Bob Taft (right) and state Department of Development director Bruce Johnson (left) tour an advanced-manufacturing plant in Canton, Ohio, that designs systems for processing metals and materials. The governor's visit was part of an ongoing effort to promote the state's Third Frontier Project. (photo: Office of Gov. Bob Taft)

"This is a long-term commitment," Hasler says. "We've laid the groundwork to transition from a manufacturing state to one that offers high-wage, high-skilled jobs in research, technology and advanced manufacturing."

Over the next two years, \$75 million will go into the state's 21st Century Research and Technology Fund, which promotes partnerships between universities and businesses. The goal of the fund is not only to develop advanced technologies in the state, but also to provide a commercial market for them. The state also has extended its research and development tax credit for the next 10 years.

In addition, the state has given authority for \$344 million worth of various university research and construction projects. A \$9 million investment is being made in the development of technology parks, which are expected to attract start-up businesses and assist them with infrastructure and technology needs.

Hasler says most of the initiatives in Energize Indiana target four high-tech business sectors that build on existing strengths. For example, the state will use its sizeable manufacturing base

to enlarge its advanced manufacturing sector. Public dollars will be used to retrain workers and offer technical and financial assistance to businesses as they make the transition to advanced manufacturing.

Another economic sector, advanced logistics, has been targeted because of Indiana's location at the "crossroads of America," which could make the state a center for future high-tech distribution systems. The state also is investing significant resources into life sciences and information technology.

Ohio is attempting to build on its existing strengths as well. In fact, the name of its new economic development program is a reminder of the innovative spirit of past Ohioans who conquered the 19th century's wilderness frontier and who pioneered the 20th century's industrial frontier.

For the 21st century, Taft says, the knowledge-based economy represents the third frontier. The state's economic development strategy focuses on four areas:

- Investing \$500 million in technology and biomedical research funds. These funds support early-stage capital along with the development and commercialization of leading-edge products.
- Making \$500 million worth of investments available for the financing of facilities and equipment for globally competitive centers of research.
- Creating a \$100 million Innovation Ohio Fund that supports advanced manufacturing technologies and helps existing industries become more productive, competitive and profitable.
- Developing a \$500 million bond program to provide the resources needed to recruit world-class researchers and bring state-of-the-art products to market. As least for now, this last part of the plan has been shelved by Ohio voters. The bond program required voter approval, and this month, Ohioans narrowly rejected the proposal.

As these recent election results indicate, initiatives like the ones in Indiana and Ohio can be met with resistance. Detractors say the states go too far in an area that they simply should not and cannot control: the future direction of the economy. In addition, they believe states' current fiscal woes make this a particularly risky time to increase debt obligations or take money from already-strained general funds.

Hasler, though, is confident that his state's investment in Energize Indiana will pay off for future generations of Hoosiers.

"When other states were scaling back on research and development, we really stepped forward," he says. "We have made this state a better environment for businesses to locate and grow here." 🚀