

**FIELD HEARING: ROUNDTABLE
DISCUSSION ON THE ECONOMY
OF SOUTHERN INDIANA**

HEARING

BEFORE THE

**JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES**

ONE HUNDRED THIRD CONGRESS

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ECONOMY OF SOUTHERN INDIANA**



THURSDAY, JUNE 2, 1994

**CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
*Washington, DC.***

The Committee met, pursuant to notice, at 1:00 p.m., in the Hoosier Room West, University Center, Indiana University Southeast, New Albany, Indiana, Honorable Lee H. Hamilton (member of the Committee) presiding.

Present: Representative Hamilton.

Also present: William Buechner and Ken Nelson, professional staff members.

**OPENING STATEMENT OF REPRESENTATIVE HAMILTON,
MEMBER**

REPRESENTATIVE HAMILTON. The Joint Economic Committee will come to order.

The Joint Economic Committee of the Congress is meeting this afternoon in New Albany, Indiana for a roundtable discussion on the state of the economy in Southern Indiana. I would like to welcome all of the participants, and I want to thank you for your willingness to participate.

Most of the Joint Economic Committee's hearings, of course, are held in Washington and focus on national economic issues. But periodically, we hold hearings in places other than Washington that focus on issues that are more local in nature and of more local concern.

Last year, this Committee met and held a hearing at the Federal Courthouse here in New Albany on rural economic development, which I thought did a very helpful job of examining the economic problems of rural areas and the kinds of federal programs that address those problems.

This afternoon, I want to take a broader perspective and look at current economic conditions in Southern Indiana and the steps we can take at the federal, state and local level to improve business conditions and the business climate in our part of the state.

I hope that last year's hearing and roundtable discussion will contribute to the work of the Southern Indiana Rural Development Project, which is under the direction of Dr. David Rice, who will say something about it, in just a moment.

Looking at the nation's economy, there appears to have been a substantial improvement in economic conditions during the past year. The economy grew at a rate of 7 percent in the fourth quarter of 1993 and 3 percent during the first quarter of this year, which is even stronger than many analysts think we can or should try to keep up.

We are also starting to get some good job growth. Since the start of last year, we have had a net gain of 2.8 million jobs, which is a very strong pace.

One thing that is impressive about this economic recovery is that almost all of the new jobs are in the private sector. In fact, the Federal Government has actually cut its civilian employment by almost 70,000 since the start of last year.

Another impressive aspect of this recovery is that we are getting this growth and new jobs without generating any new inflation. The inflation rate for the past year has been 2.4 percent, which, if it continues, would make 1994 the fourth year in a row of falling inflation.

But some concerns about the economy have also been raised. Many of the new jobs in this recovery have been in industries with below-average pay scales and few career opportunities, such as the temporary help industry, retail trade and eating and drinking places. Offsetting that somewhat is the fact that manufacturing firms have added over 100,000 new jobs just since last September, after four and a half years of losses.

There are also some parts of the country that are not doing very well. California, in particular, still has very high unemployment. And there is some debate over whether the Federal Reserve may have raised interest rates too much or too quickly and may have put the recovery in some jeopardy.

Yesterday, the *Washington Post* and the *Wall Street Journal* had articles on how the economy may be cooling, based on data that home sales, retail sales and disposable income were all lower in April. But overall, it appears that the national economy is still in a recovery, and most analysts expect it to continue.

This afternoon, I am most interested in how the economy is doing here in Southern Indiana, and what we can do to make our part of the state an even better place to do business.

We have a dozen participants here today from the local business and academic communities, and I hope they understand how much I appreciate their willingness to come to New Albany this afternoon and contribute to the roundtable discussion.

I plan to begin with Dr. Rice, who will say a few words about the southern Indiana Rural Development Project.

Then, we will turn to Morton Marcus and Fay Greckel, who will discuss broad trends in economic conditions in Indiana, and southern Indiana in particular. I've asked each of them to keep their remarks reasonably brief.

Then, I want to ask each of you to take three or four minutes to talk about economic conditions as you see them, from the viewpoint of your own business or your own industry.

I also want to look at what can be done to improve the business climate in our part of the state. We will spend most of the discussion period on that, if you don't have time to get to everything you might want to say in your opening remarks.

We've already had the introduction of the members of the roundtable.

Just to give you a little more specific idea of what I'm going to be focusing on, there are two major parts: Number one, economic conditions in southern Indiana, what are they—general economic conditions, inflation, interest rates, productivity, competitiveness, economic indicators? How do you feel about the status of the Indiana economy, what its strengths are and what its problems are? I want you to address that, if you would. That's topic number one, economic conditions in Indiana, as you see it.

Topic number two is, how do you improve it? What do you do? What do you do with regard to education and workers' skills? What do you do with regard to infrastructure? What about regulation, taxation, state or federal? How do we help small business? Anything you think would be helpful and appropriate from the standpoint of your perspective in improving the business climate in southern Indiana.

Okay. Let's get under way. Dr. Rice, let's give you the microphone and have you take over for a few minutes.

**STATEMENT OF DAVID RICE, PRESIDENT,
UNIVERSITY OF SOUTHERN INDIANA**

DR. RICE. Thank you, Congressman Hamilton.

The southern Indiana Rural Development Project was conceived actually as a follow-up group from the Hudson Institute report that was funded by a Lilly endowment through the efforts of Congressman Hamilton.

As that report flowed forward, there were concerns that it wasn't enough to just talk about the problems, to identify the problems. There needed to be some kind of an action group to follow up.

That was the purpose of the establishment of the southern Indiana Rural Development Project, which was to generate a group that on a continuing basis would attempt to assess strengths and weaknesses of southern Indiana and to serve as an action-oriented group to identify policies and practices and strategies that might be used to address some of those problems. We've been operational for about a year now.

Currently, the project has a number of task forces that are focused on: One, education and work-force development; two, business development; three, quality of life; and four, infrastructure, plus leadership development, streamlining government and housing. There are some of the topics that we have on the task force. We've engaged a strategic development group in Bloomington to provide us staff services.

I'll ask Thayr Richey, who's here with us, to distribute to each of you just a brief outline of the project and the participants.

That's basically the purpose of the group, and we hope to be, on a continuing basis, an action group that can help study and work with the problems of southern Indiana.

REPRESENTATIVE HAMILTON. Okay, David. Good. Let's go ahead.

Thayr, go ahead and distribute that. It would be helpful for all of us to have it. Thank you, David.

Now we can go to our two academics, Dr. Fay Greckel first, and then Dr. Morton Marcus.

Dr. Greckel, please proceed.

STATEMENT OF FAY GRECKEL, DEAN, DIVISION OF BUSINESS AND ECONOMICS, INDIANA UNIVERSITY SOUTHEAST

DR. GRECKEL. Thank you, Congressman. My area of greater expertise is the region we're in right now, south central Indiana. So I will start off with some more specific remarks about our local area here and then generalize a bit about some of the other concerns.

Some preliminary data indicates that, along the line of what Congressman Hamilton said, we've had quite a bit of job growth in the last 12 months; during the last year, probably in the neighborhood of 10,000 new jobs in the Louisville metropolitan area.

I might add that one of the things that's new is that the metropolitan area now includes Scott County, and we now have more southern Indiana counties in the Louisville metropolitan area than Kentucky counties.

Also, along the lines of the Congressman's remarks, about 1,500 of the new jobs are in manufacturing. And this geographic area has held its own pretty well in the last several years. We have more manufacturing jobs now than in the late 1980s. And generally they are, on average, good jobs with earnings at least slightly above the national average for manufacturing.

But here and elsewhere, most of the growth has been in the areas the Congressman mentioned, in retailing and services—again, some very good jobs in that area, but the earnings regionally are, on the average, below the national average in services.

Some of that reflects the kind of full-time jobs that we are seeing growing most rapidly. Some reflect the fact that a lot are part-time jobs. And there's evidence that there are a lot of people holding multiple jobs; that is, the number of jobs in this region have been increasing

faster than the population, and labor force participation hasn't been growing rapidly enough to account for that difference. So it looks as though we're having really quite a substantial number of multiple job-holders.

That has some implications, I think, for income, quality of life, family stress. In fact, on children, a lot of things that we know are happening nationally certainly are happening here locally and regionally.

There is, I think, a very important link between the kind of jobs that are growing here and elsewhere in southern Indiana and the educational level of the existing work force. I'd like to come back to that, if I have a minute or two, after my other remarks.

In this part of southern Indiana, we've been pleased to see that we're starting to get some more executive housing. We think, in the long run, as that population expands, it will have some positive implications for other kinds of growth and development in at least the counties in this general area here. It appears that more and more of what we might call higher-status firms are looking at this part of southern Indiana, and perhaps other parts as well. I can't testify to that.

We expect to have a couple of office parks here soon, and that's a new development for us.

Existing firms are developing in important ways. Some of them are going into ISO 9000 programs, or have achieved it.

Firms are internationalizing; people around the table can testify to that. I know that Doug Feen's company exports to Japan and perhaps elsewhere. And we have K-Cord—pronounced KoKoKo—did I get that right?

MR. TERRELL. K-Cord is fine.

DR. GRECKEL. K-Cord is one of 128 Japanese firms in Indiana, I think—there may be more since I saw the list—quite a few in southern Indiana, and statewide they account for over 33,000 jobs. And there are other countries, of course, with investments in our part of the country.

Looking a little more broadly, one area that I'd like to mention is transportation infrastructure, particularly roads and highways.

I think, in general, maintenance—bridges included—is a growing problem for probably all of the state, but we're certainly conscious of it here in southern Indiana.

The I-65 corridor that runs south from Indianapolis to the Ohio River is, I've been told—and Morton, as the state expert, can contradict me if this is wrong—is the hottest-growing corridor of its type in the state. And we're certainly seeing a lot of industrial development and so on in that general area.

The I-265 extension from 65 east, which is almost ready to open, is very important, we think, for traffic flow and market access in this part of the state and to the east of us in southern Indiana.

I know there's a great concern in Dr. Rice's part of the state about having a similar corridor from Indianapolis down to Evansville.

Here, as many of you know, an issue on the I-65/265 extension is a bridge. I think people in the general metropolitan area are pretty well in agreement that there is a need for another bridge across the Ohio River. There are only two highway bridges, and one that is a more local bridge, and that is just not adequate for the increased travel that we have across the Ohio.

The location is the big stumbling block right now. I think most of us here who are concerned about it would agree that at the end of I-265 on the eastern corridor is the logical and the most beneficial location.

As far as the implications for southern Indiana are concerned, they were really brought home to me in an article this weekend in the *Courier-Journal*. A quote from one of the executives at the Ford Truck Plant in Louisville said that because they haven't decided on the location of the bridge, and particularly because it's not clear that it's going to be in the eastern edge, that he can no longer recommend to Ford's suppliers that they locate in Indiana. Of course, this auto corridor is an important part of the growth that we have experienced. Ford is telling its suppliers to go to Elizabethtown, Kentucky, or Bullitt County, where they don't have to depend upon the current transportation across the river, or the uncertainties about the location of that bridge.

So I will put that down as a very major concern for us here and in several of the other counties surrounding us.

I would like to take just a minute to, at least, bring up my educational concerns. We all know that with things like ISO 9000 and internationalizing and the competitive world we are moving into and the technological developments, that an educated work force is extremely important.

One of the problems for Indiana as a whole and for southern Indiana in particular is that we are not exactly on the forefront of national accomplishments in that area.

As of the late 1980s—I don't have a more current listing—Indiana ranked number 49 in the percent of adults with college degrees of a Bachelor's level or higher.

According to the 1990 census, the average for the United States was, among adults, just over 20 percent holding college degrees. In Indiana, it was 15.6 percent.

In southern Indiana, only two counties in the Evansville area, Warrick and Vanderburgh, were at or slightly above the Indiana average, but they were still below the national average.

All the other counties in southern Indiana were below the Indiana average. By southern Indiana, I'm looking at the counties through which U.S. 50 runs, or south of that. Floyd County and Jefferson County were just slightly below. Five others had 10 to 12 percent of their adult population holding college degrees. The remaining 19 coun-

ties each had less than 10 percent of the adult population holding four-year college degrees.

Of the ten Indiana counties with the lowest per capita income, eight of those ten are in southern Indiana, and all of them are in that group that have less than 10 percent of adults holding college degrees.

Compounding this problem, or probably a major contributor to it, is high school graduation. southern Indiana counties have a high percent of the population over 25 without high school degrees.

In 1990—and this surprised me as being a little high, I thought— 22 percent of the adults did not have high school degrees; in Indiana, it was 25 percent for the state as a whole.

I don't have the figures for all of southern Indiana, just the counties that I.U.S. basically serves: Floyd, Clark and Harrison. Twenty-seven to 28 percent of the adult population didn't hold high school degrees.

The percent for Jefferson County, Washington, Orange, Jackson and Jennings Counties, was in the 30- to 36-percent range, and for Scott and Crawford Counties, 40 percent of the adult population did not complete high school.

I think that has very serious implications for our present and our future in terms of what we are going to be able to accomplish in terms of economic well-being.

REPRESENTATIVE HAMILTON. Thank you, Fay.

Dr. Marcus, go ahead, please.

**STATEMENT OF MORTON MARCUS, DIRECTOR, INDIANA
BUSINESS RESEARCH CENTER, INDIANA UNIVERSITY**

DR. MARCUS. Basically, the economic indicators from the State of Indiana are all moving in a very positive direction, and we rank 16th in the nation in terms of our ability to create jobs. But about one quarter of all of the jobs that have been created in the state over the past year have been in eating and drinking places, which may indicate our natural Hoosier preference for commercial activity, and in business services. Business services, of course, include temporary workers.

I think the larger issue has already been relayed by Dr. Greckel when she talked about the growth of part-time employment and the question of the quality of employment that's available for people in the state of Indiana.

Many firms have said that it very difficult, as I've talked to them around the state, to increase prices because they face very competitive markets. If they can't increase prices, they can't increase wages. And without being able to increase wages, they can't attract the kind of labor force that they need.

And as Dr. Greckel has indicated, we may not have the labor force that is needed. If you can't attract a labor force from someplace else by higher wages, then you could try to train those workers, but that's a costly and time-consuming activity.

It's difficult to train workers when there's a significant cost that's associated with each worker, and a question of what future costs are associated with each worker.

What I'm referring to is that we now have a great deal of uncertainty among businesses about what's going to happen with the health-care program in Washington. So many firms seem to be holding back on hiring. Whether this is just an excuse or whether there's some reality to it, I can't tell you. But many firms express enough doubt about the health-care package that they wonder whether adding workers at this time is going to somehow adversely affect their balance sheets.

They're also concerned about the fact, and it depends on the industry, that they have very high costs associated with testing for drugs.

Testing employees is becoming a larger and larger activity. Particularly if you talk to a trucking firm, for example, there's routine testing. There's a whole industry that's developing around testing in transportation. And soon I'm sure it will spread to banking and, I hope, to education. It would be very nice to have our students and faculty all clean.

The drug situation leads to higher costs with regard to prisons. Local communities are having to add to their prison capacity. They don't have the funds to do this. This means they have to cut back on other kinds of services.

There is also tremendous pressure on localities because the Federal Government has mandated programs pushing down toward the states. The states then mandate programs that get pushed down to the localities, but the localities don't raise taxes because people are against tax increases.

So the ability of localities to fund infrastructure, or of businesses to fund work-force enhancements programs, are restricted in part by, among other things, the drug situation, which raises the cost of doing business both in the public sector and the private sector.

We're so concerned about reforming the health-care program in the United States, but we're not looking at what is probably the number one health problem in the United States, which is the cost of drugs to our society.

So I think that in the State of Indiana there is a constraint that is being placed on our growth. Although we are progressing nicely, there is a constraint that is placed on our growth by international competitive forces, plus domestic problems that affect our ability to meet that international competition.

REPRESENTATIVE HAMILTON. Okay. Now, that's the formal aspect of the agenda, and from here on we really want to have a discussion.

I don't want to put anybody on the spot, but I'd like to proceed with each of you making whatever initial comments you think appropriate. I don't have any particular order in mind, but let's ask each of you to participate, if you'd like, and say what you want from your perspective

about economic conditions—perhaps about something Fay or Morton commented upon—let's get a discussion going.

Who wants to lead off? Anybody want to volunteer? Otherwise, you'll be subjected to a speech by me.

David, you're an economic developer in Jennings County. They've had some good success in getting new industry, so let's hear from you.

**DISCUSSION BY DAVID KOENIG, DIRECTOR,
JENNINGS COUNTY ECONOMIC DEVELOPMENT**

MR. KOENIG. I want to thank you for the invitation. The economic conditions from our perspective in Jennings County, although they're limited, seem to be very strong, not only in the headline-grabbing, big projects, but also by way of the small and start-up businesses in the manufacturing sector. It's very strong in Jennings County, and it's not all related to the larger projects going along, but the overall economic conditions of the state.

As far as my suggestions on how to improve upon it, they, again, are going to be limited to a perspective of southeast Indiana, which—with the group that I work with, seven, eight counties—is everything east of I-65 and south of I-74, basically.

It's probably by far the most rural area of the state, and in fact, one of the problems is that it doesn't have an urban center. Lacking the urban center, it lacks all the other amenities and services that go along with that, including transportation routes, both rail and highway transportation and commercial airport facilities. These things are extremely important to not only existing businesses, but businesses looking to locate within a vicinity.

The area I'm referring to also lacks major facilities in higher education. In part, that's the cause of the educational attainment of those counties.

I know there's also a coalition, which I'm sure has been in contact with you, as well as the other state universities, that is in the process of putting together the electronic campus, and we're hoping that that will open up access to education.

There's one thing that I want to point out. It seems to be mentioned quite frequently to me by companies in Jennings County. It has to do with the poverty cycle and the effect that that has on the community's overall labor force.

I think the poverty cycle is most often referred to as being in urban areas, but it exists here too. And, maybe, because crime and other characteristics that accompany it aren't so prevalent in rural areas, it's sometimes overlooked.

But the net result is a labor force that is losing its work ethic, both in the importance placed on attendance and the overall productivity of the work force. This, time and again, is being mentioned to me as an

important characteristic or problem that needs to be addressed. I'm sure it's not unique to Jennings County.

Something that we're faced with is a very large public property ownership in Jennings County, and this and a somewhat stagnant economy for many years has caused a low property tax base. Consequently, that limits the local government's ability to make necessary improvements.

One thing that we're faced with on more of a regional basis right now is the Jefferson Proving Ground. I know the feelings are somewhat mixed, but the overwhelming feeling of the board that has been charged with the reuse of that is to privatize as much as possible of that facility and get it on the tax roll.

Another thing affecting taxation of local communities is a trend—I don't know how long it's been occurring, maybe 15, 20 years—for state and federal governments to mandate certain programs, as mentioned earlier, at the same time cutting back on intergovernmental grant programs; at the same time, keeping a fixed or constant tax rate. This puts pressures on local governments to raise taxes or user rates, whatever is necessary to pay for improvements. And that's not a popular position for anyone to be in.

I don't know the correct answer, but intergovernmental assistance is decreasing—you would think that the tax rate should reflect that—and a lot of local governments must raise taxes without overall increasing the tax burden on individuals and businesses.

Finally, I just want to point out that small- and medium-size businesses and start-up businesses still appear to have problems accessing capital, primarily from the private sector. There are a number of programs out there, state and federal, which are useful in getting capital into the entrepreneurs' hands. But without the participation of commercial lending institutions—and this may be unique to my perspective, I don't know—but I do know that it's a problem in our locality, and I don't know whether it's a regulatory situation that causes the hesitance to lend, or the individual characteristics of the loan officers.

REPRESENTATIVE HAMILTON. Okay, Dave, that's a good start. Who's next here? Mark, please proceed.

**DISCUSSION BY MARCUS RUST, EXECUTIVE VICE PRESIDENT,
ROSE ACRES FARMS**

MR. RUST. I won't go into the southern Indiana economy. I think it's fantastic right now, but some of the things that I'm going to nit-pick are what I see as some of the potential problems for industry.

U.S. 50, in my opinion, is a very big problem. For the last 20 years, I have had to see all the traffic on that road versus other areas. And with the growth that we've had there, U.S. 50 is going to be a stranglehold on that whole belt of counties between Cincinnati and I-65.

When I drive from northern Indiana to southern Indiana to our farms in Iowa, you see growth along the interstates. When you take the

back roads, the U.S. 50s, the state highways, you don't see a lot of growth.

The interstate system today is like the railroad system that our forefathers had in the late 1800s. The communities grew around the railroads. Today, the communities are growing around the interstates and the major highways and arteries.

The other thing, from a federal standpoint for our industry, is that we have what we consider a lot of entry-level employment—general labor.

When you're packaging eggs, the starting wage is about \$7.10 an hour. And the need we see with those kind of jobs, which are manual, is it's very hard to get people who are willing to work hard—and they're very hard-working jobs. I'm sure George knows that it's not easy to get a crew to bale hay today, is it?

We're faced with our customers dictating back to us because they don't want boxes that weigh over 30 pounds. And because of all the workmen's comp claims and stuff, they can't give them boxes that weigh over 30 pounds. An egg case weighs 45 to 50 pounds. It's the heaviest item in the grocery store today. But to go to smaller packages makes more labor for us.

What we need is some kind of an investment tax credit to help us go in and eliminate lots of manual labor positions where it's very hard to find someone to work without having to bring in migrant labor, or something like that, to put in a technical position. You know, we're looking at a lot of computer-operated equipment today, and it takes high-quality labor to operate that type of stuff.

REPRESENTATIVE HAMILTON. Okay, Marcus. Thank you. Who's next? Jimmy, please proceed.

**DISCUSSION BY JIMMY M. WRIGHT, VICE PRESIDENT FOR
DISTRIBUTION, WAL-MART CORPORATION**

MR. WRIGHT. First off, Congressman Hamilton, Wal-Mart stores expresses its appreciation for being invited to participate today.

We have more of a view of the entire state, which is what I would like to report on. I couldn't break out demographically the southern part from the northern part.

So just a little bit about what's going on within Wal-Mart. From February 1, 1992 through February 1, 1994—a 24-month period—we've increased by 11.3 percent the number of stores that we operate within the state.

During that same period, we were opening three distribution centers that were in that growth period: Seymour, Indiana; Greencastle; and Indianapolis.

On the work ethic question, Greencastle, Indiana, this current year so far, has the highest productivity increase per person of any distribution center within our network.

REPRESENTATIVE HAMILTON. The network is the whole country?

MR. WRIGHT. Yes, sir. For 1993, Seymour, Indiana was recognized as the most improved distribution center in our network, and came in second place in overall competition for the best center. And currently, I guess they're the third-highest production operation that we have. During that same period of time, we've added in excess of 300 jobs within that location.

REPRESENTATIVE HAMILTON. If you want to see a fascinating operation, take a tour of that Wal-Mart Distribution Center. That's high-tech warehousing.

MR. WRIGHT. Well, it's fast paced.

REPRESENTATIVE HAMILTON. Yes.

MR. WRIGHT. During that same period, we increased our purchases from vendors from the State of Indiana. In the fiscal period, 12 months ending February 1, 1992, Wal-Mart purchased 506 million dollars worth of merchandise from approximately 200 vendors within Indiana. In our fiscal year ending January 31, 1994, we purchased 1.1 billion dollars from 587 vendors within this state. In addition, we paid about 112 million dollars of sales and personal and property tax within the state.

So we see the economy overall as extremely good within the state.

Specifically, to the question of Seymour, Indiana, that building is an exciting place made up of exciting people. Don Sundquist, our Chief Operating Officer, presented the most improved trophy to that building. The people there had a good time with that. They were excited for themselves for winning it. They were excited for the community and for representing southern Indiana.

There was a question about the work ethic a while ago, that it may be lagging. I think that companies, be it Wal-Mart or some other company, must realize that we have the responsibility to create the work ethic. We have the responsibility within our operations to teach the work ethic that we want out of our associates, or our partners or employees. I mean, it's our responsibility to create that environment of expectations.

There was a question about why did we locate in southern Indiana. Our company runs a five-year, rolling-plan logistics network of where we need to be. That five-year plan runs about five different scenarios of different sales levels, and we play with it on a six-month basis.

Our initial plan showed that that distribution center could be based anywhere from northern Kentucky up to just south of Indianapolis and even into eastern Illinois.

The reason we located in Seymour, first off, is the State of Indiana had a very aggressive economic development program, a very aggressive economic development team that knew what they were talking about. They could communicate with a large organization quite well on the benefits of the state, the infrastructure support, the north, south, east

and west corridors that were available. Very quickly, the state identified several sites within Indiana that could be used for our purpose. Then, once those key sites were identified, we worked with the local economic development agencies.

I think one of the keys—and I'll speak, because I deal with them from New York to California—is for the state to do everything it can do to educate the local economic development group on techniques on marketing, research, techniques of financing, infrastructure improvements, and to educate the local people as to what existing funds are available to support economic growth within the area.

Then, whether it's Wal-Mart or whether it's someone else that comes into town, they can bring forward that educated, confident view and say, "Here's what we can do on this site for your particular industry."

I would suggest, rather than creating more funds or doing a lot more legislative activity, I would look more at the education of your economic development groups at the local level and enhancement of the individual state's abilities to quickly identify sites for specific industries.

Our industry and distribution is an extremely clean business, so rural farm communities are a natural for us.

But as a suggestion, Congressman, I would use Seymour, Indiana, that whole group—the mayor, the town council, the economic development group—as a role model, if you will, of how to treat any particular investor that comes into the community.

There's a lady in Sharon Springs, New York, who works part-time in economic development and is a full-time farmer, but she knew exactly what she was talking about. She sold us on a community basically that was dead to the point that we had to put our own sewer system in; we had to do some things we normally don't do, but she sold us on that community.

The last part that we use in evaluation of sites is what I call my softball park visit. Every site that we're going to build a distribution center in, before we agree to recommend it to the executive committee and board of directors, I and my boss go to that community.

I try to get away from the economic development people—no insult—I actually go to the softball parks, walk around the town and just look at the individuals, talk to people, get a feel for values. Do the people possess the values that Wal-Mart emphasizes as integrity, honesty, hard work—what I'd call some of the values of my day of growing up. And then based on that, we make a final recommendation. And we've eliminated communities because of the softball park visits.

So our view of the economy here, sir, is extremely good.

REPRESENTATIVE HAMILTON. Jimmy, where are you located?

MR. WRIGHT. I'm located in Bentonville, Arkansas.

REPRESENTATIVE HAMILTON. In Arkansas. We appreciate very much your coming here.

We have a lot of good ideas floating around here.
Jack, how about the banker's point of view?

**DISCUSSION BY JACK RAGLAND, PRESIDENT,
LIBERTY NATIONAL BANK OF INDIANA**

MR. RAGLAND. Thank you very much.

I spent 11 years in Seymour during the 1970s, and I like to think that I had a hand in a lot of the projects you're talking about. I worked on one of the projects during that time, so I'm glad to hear they're doing the job well.

My bank operates in five counties in southern Indiana, as I mentioned, Clark, Floyd, Harrison, Scott and Crawford. Overall, I think we'd say that economic conditions are good, if not excellent.

As you know, we're not impacted as much when there is a downturn. We didn't have as far to get back, economically speaking. I'd say that we've been back for a good 9 to 12 months and are really in pretty good shape.

We've still got some pockets of trouble—Crawford County. I don't know whatever can be done for Crawford County. There's a lot of anticipation and expectation about the river boats—Morton, that's one of your favorite topics—but what will come of it, I think only time will tell there.

Looking at the banking business, on the loan volume on the retail or installment side, we've seen some real good, strong rebounds there. Most of the activity on equity loans, car sales, have been strong overall.

On the commercial side and business loans, we're seeing more activity today than we've seen probably in the last two or three years. It's as though people have brought out the plans that they've had on the shelf and are beginning now to move forward. Even the pickup in interest rates in the last month or two hasn't slowed that down in the least bit.

Competition for those loans is very, very keen. All of us out there are trying to make those loans; we are hustling like crazy to get the loans for our bank.

REPRESENTATIVE HAMILTON. Jack, let me interrupt you just a minute. On your comment about interest rates, I'd just like to get a quick reaction from the group. You indicated that the uptick in the interest rates didn't seem to have affected the business level.

MR. RAGLAND. Commercial level. I have some comments on mortgages.

REPRESENTATIVE HAMILTON. Let's get to that. Let me have a quick reaction here. In your businesses, do you see some impact from those increases, plus or minus? Anybody?

MR. RAMPLEY. We do on new home starts from electric sales. We saw a lot of new construction last year of new homes going up, and we've seen some decline in that recently.

REPRESENTATIVE HAMILTON. A slowdown? Okay. Go ahead, Jack. Excuse me for interrupting you.

MR. RAGLAND. No problem.

As far as the commercial side or business side, though, we've not seen any change or slowdown there. As I said, we're all competing for those loans, and that's making for better deals, really, for the businesses out there.

Mortgages, yes, there has been some slowing, particularly on refinancings. That has just about run its course.

As far as purchases of existing and new homes, that's still fairly strong; however, a lot of people are taking a wait-and-see approach. When you look at the fact that two or three months ago rates went up 1, 1½ percent on a 30-year, fixed-rate mortgage from what it was, that's a pretty significant increase. So a lot of people are pulling back and waiting to see.

As far as new home construction in our area, that is still really strong in Clark and Floyd Counties, as much as what we were seeing last year. If there's a tick-down, it's not that significant.

As far as Harrison and Scott, we're not seeing as much new construction there. There's a lot more upscale construction, as Fay mentioned, the hundred to a hundred and twenty-five thousand plus homes, a lot of those being built.

There's still a strong need for low-to-moderate income housing, the 50- to 75-thousand-dollar range, and that's not going to go away. That's still there.

A lot of the banks, including ours, are still pushing first-time home-buyer programs with the low downpayments and all the things that go with it, to try and meet some of the needs of the low-to-moderate income group. But availability of funds for that, programs such as Farmers Home, which we're involved in ... I'll come back and hit on some thoughts on that a little later then. Thank you.

REPRESENTATIVE HAMILTON. Okay. Who's up next?

MR. TERRELL. I'll go ahead.

REPRESENTATIVE HAMILTON. This is an interesting plant that you operate. Tell them a little bit about your operation, just a word or two. Go ahead, David.

**DISCUSSION BY DAVID TERRELL, GENERAL MANAGER,
K-CORD CORPORATION**

MR. TERRELL. We are K-Cord. We are in Scottsburg. We make steel cord for steel-belt radial tires. We basically take wire coming in and draw it down. It's about a 97-percent reduction down to a size of a thread, and we plate that and ship it to tire companies. So we are heavily related to the auto industry. From our perspective, things are good. I mean, productivity is good and orders are good.

We are paying attention to the European economy a little bit, because as that improves the European companies that are jumping in here will go back to Europe. That will help us.

We employ about 290 associates, and we have just really reached our level of productivity or capacity. And already we are being pushed by our customers to develop the next generation or new line of product, which requires more investment and more training and so on.

So it's a highly competitive situation where we just cannot take a breath. And so our associates have to go along with that.

I agree very much with what Dr. Greckel and Dr. Marcus have been saying. I took note that Scott County is 40 percent high school drop-outs; right?

DR. GRECKEL. Right.

MR. TERRELL. There is a reflection of that in the work force. I agree with the comment that companies have the responsibility for setting the work ethic or setting the tone in the workplace and our workplaces.

I think that what hasn't been mentioned here is that there is a drastic cultural change within the workplace that is impacted by what's happening in the communities, or what has happened in the communities.

We have a network or an association of manufacturers in Scottsburg, and we meet on a regular basis, and all of us are implementing some process of team approach. All of us—I know we do—when we have customer complaints, take one of our production associates with us to the customer.

We have to react quickly. We have to have our people working together, and that requires communication skills. That requires citizenship skills.

Drawing from the current work force, my feeling is that culture in the schools—that's part of it, but also part of the culture of the community—we're running into a real problem of getting that acculturation process to take place quickly enough for us to stay competitive.

REPRESENTATIVE HAMILTON. David, would you comment on how well you think the high schools in the area are training people for you?

MR. TERRELL. From a technical standpoint, just sheer mathematical standpoint, we use statistical process control, SPC. We noticed that we were having problems with some of our charts with one of our customers. Basically, with SPC, if you can master fractions and decimals and those kinds of things, you will do fine. Your company will do fine.

We already do some pre-testing just for basic aptitude, and so we didn't think that we would have a problem. We took a random sample of about 30 percent of our work force and worked with I.U.S. to develop a math test specifically geared towards statistics and SPC applications. On average, out of 100, the score was 30.

REPRESENTATIVE HAMILTON. Give me some reference there. Is that very, very bad?

MR. TERRELL. That's very bad. The expectation was—talking to our quality person who developed it with the I.U.S. people—I think their expectation was around 80 percent. And we screen our associates.

So, from a technical standpoint, I have very grave concerns about what's coming out.

I think what was touched on by, I think, Dr. Marcus, is just as critical—I think a couple of others commented, too—is basic citizenship skills. And that relates to the acculturation process, the ability to make connections among different seemingly cause-and-effect types of situations.

I think the ability to work together is basic. It's no longer a cookie cutter factory. I'm sure they're around—maybe a cookie cutter factory is—but I think too many of the schools still have a cookie cutter approach, and that's just not the workplace anymore.

REPRESENTATIVE HAMILTON. I don't want to put words in your mouth here, but I want to make sure I understand. You're confronted with more and more competitive pressures?

MR. TERRELL. Yes.

REPRESENTATIVE HAMILTON. You have to produce a product that is technologically more advanced?

MR. TERRELL. Yes.

REPRESENTATIVE HAMILTON. You're working in a highly competitive world market?

MR. TERRELL. Yes.

REPRESENTATIVE HAMILTON. And as you look down the road and see the demands that are being made on your industry, you know that the work force skills have to be upgraded?

MR. TERRELL. Yes.

REPRESENTATIVE HAMILTON. And you're very worried that you don't find the pool of workers with the skills that you need, is that correct?

MR. TERRELL. That's correct. We're having trouble finding people.

REPRESENTATIVE HAMILTON. You're having trouble finding people.

MR. TERRELL. And other plants in the area are having the same trouble.

REPRESENTATIVE HAMILTON. Okay. How about the work ethic? Do you want to comment on that a minute? David, I think, made a comment about that.

MR. TERRELL. Concerning the work ethic, I have mixed feelings about it. I think, on the one hand, the work ethic is very strong. On the other hand, I think there's a misunderstanding of what's required in the workplace. Working within organizations, that's more team learning or team approach, and maybe a partnership. An understanding of partnerships needs to be developed more, and that's more of a community cultural thing, too.

REPRESENTATIVE HAMILTON. Yes. Jimmy, did you want to say something?

MR. WRIGHT. I would just make one comment about what David was saying. Wal-Mart is a big supporter of the Goals 2000 program that we've worked on. I'll give you a great example.

Through our satellite broadcast network internal to Wal-Mart, we downloaded the Goals 2000 broadcast that comes out from the Department of Education. Every distribution center invites the local education community, be it a junior college located there or high school or superintendent, whoever, we invite them out to view that and offer to tape it for them.

The participation level of people who would want to come out and see this broadcast or get a copy of that tape from the Education Department has been very disappointing.

We have some locations—Porterville, California—where it's excellent. We have other locations that I will not name, where you couldn't bribe them with money to come out and watch it.

I think businesses have two things they have to accomplish. One is to build a closer partnership with the local school system to define the skill sets that they would like to come out of that educational factory, if you will.

The other responsibility we have, for example: At Wal-Mart, in our distribution division, one of our objectives this year is to develop a Life Skills Program for our associates where we, actually working with local communities, teach parenting classes; we teach mathematics classes; we teach personal finance classes.

We're finding that we have to develop the entire person, the entire associate, so that—we, too, use SPC, as we talked about those things—the person, the associate, is well-rounded enough as an individual to understand the business.

I think everyone needs to realize that in the future the old way of telling somebody, "You do this 452 times a day" is going by the way-side. You have to develop an associate who can understand the business that you're in, the problems associated with that business. And companies in an intermediate period are going to have to assume a major role in the development of their current associates, but they have to work with the academic community to change some of the high school level and lower educational skills that they're preparing people for.

REPRESENTATIVE HAMILTON. Just so you know what the game plan is, we will not go any beyond 3 p.m. That's the absolute deadline, and we may quit a few minutes before that. There are refreshments over here, if you want to get coffee, Cokes or cookies. The restroom is out there—you should feel free to leave. That should give you some idea.

I'm going to ask Mort and Fay, if they would, at the end to sum up some of the things that have impressed you as the discussion has moved along here.

Anybody else here now? Okay. George, and then Doug. All right.

DISCUSSION BY GEORGE CORYA, INDIANA FARM BUREAU

MR. CORYA. Congressman Hamilton, I want to thank you, especially, for remembering agriculture in this.

Some of the business people may find that some of the remarks I'm going to make are like yours. You know, you used to have the thought pattern, or some people did, that if you couldn't find a job anyplace else, then you'd go to the farm.

One of the key problems that we're having on the farm is that the people who are coming out of high school, or even out of some of the prep schools, are not qualified to even get a job on the farm.

You take some of our new tractors. We have a Cat with tractors on it. We have two new Genesis Ford tractors. They can't even start the tractors. They can't do the computer work, do the sequence, besides driving them after they get to the field.

So I hope our educational people will listen, that on the farm we're after a higher quality person there also.

One of the things that I would like to say to you, Congressman Hamilton, is on regulations. This is stymieing the farm. I don't want to make an issue of saying that we have too many regulations, but one of the big problems that we're having on the farm is that we have too many people trying to interpret the same regulation.

I think we should, maybe, encourage Congress, when they pass a law, to turn it over to one agency and make them the captain, and tell all these other people to stay out of it.

REPRESENTATIVE HAMILTON. Didn't get any of the Wetlands, I'm sure.

MR. CORYA. That's one of them, and there are many more areas. We've spent considerable money in the last year trying to get all of our diking in, and when you try to work with about four or five different agencies that all think that they're the chief and none of them can agree on it, it's kind of hard to accomplish the task. So I think that's one thing.

I'm awful glad to get Mr. Ragland's name as our banker, because I hope his theory is for agriculture. But lack of money for agriculture is a big concern in this part of the state. Most of our lending institutions aren't interested in loaning money to agriculture, whether it be long-term investment, or whether it be short-term operational money.

REPRESENTATIVE HAMILTON. Jack, do you agree with that?

MR. RAGLAND. Yes, yes.

MR. CORYA. This is one of the big problems.

Another thing that is a big problem—and industry people may be glad to hear this—there is another tier of farmers who are going out of farming. There are a lot of 800-acre to 1,000-acre farmers. Some of the best farmers we have in the nation, for various reasons, don't want to

try and cope with all the regulations, the lack of money, the high cost of family health insurance, where they have to support it all. There's a group of very good farmers who are hanging it up, and they will be available for some of you who are looking for people that can cope and fit in.

Those are just some of the problems that we are having on the agriculture end.

REPRESENTATIVE HAMILTON. Very good, George. Thank you.

Doug, let's move the microphone over.

**DISCUSSION BY DOUGLAS M. FENN, PRESIDENT,
TELL CITY CHAIR COMPANY**

MR. FENN. My comments will be directed more towards our industry and our business as a residential furniture manufacturer.

After approximately three to four years of soft demand in the consumer durable goods segment that we operate in, the beginning of this recovery produced increased demand and better business conditions in about the last six months. Our company was fortunate to participate in that fourth-quarter boom, which you acknowledged, and that was real and statistically measurable in our organization.

We think that that's the result of a pent-up demand as a result of recessionary pressure. And we know that the effect of interest rates on housing starts—and particularly in our industry on secondary housing, where people move from one home to another home, not necessarily new construction—has a large effect on demand for our products overall.

For that reason, the interest that we have as an industry in fiscal management at the federal level and policy regarding the value of currency is extremely important.

Our industry is very fragmented, both on the manufacturing and on the retailing side, and this presents difficult challenges to expand our business in this marketplace.

We find the larger pressures in our industry come primarily from two areas. The trend, unfortunately, among consumers has not been into the home. It's been towards leisure, towards travel, towards items that have more entertainment value than furniture; and consequently, we see the demand for our products declining as a trend. And this is a continuing trend for our industry that threatens our existence in total.

The other challenge that we face—and this isn't new, and I don't suspect it will go away—is the threat of international competition.

Being a resident in the largest consumer market in the world, we have everyone that manufactures furniture products bringing them to the United States for sale, and so it forces us to be extremely competitive in terms of that competition.

I certainly want to compliment the policy of the government that has advanced us to the trading position where we are now. The efforts

made by the Federal Government in opening up foreign markets is very beneficial to our country, and we are in the formative stages of developing international trade. And I have to say that the pressure the government applies to foreign governments has helped us in our sales efforts.

The recent enactment of the North American Free Trade Act has also provided some real, immediate opportunities for our company that have yet to be realized and fully pursued, but we see that as beneficial.

I would hasten to add that we are in a renaissance period. It's fairly obvious to me that the efforts of the government and the value of the U.S. dollar relative to foreign currencies are responsible for where we are at this time. So fiscal policy that would affect the value of the dollar is going to be critical for our small company and other companies in expanding business in international markets.

Our company recognizes that the ability to develop new markets overseas is an opportunity to overcome the problems that I identified earlier facing our industry.

The things that I bring to your attention today, which are of concern to me in my industry, in addition to fiscal management and controlling the debt, would be the pressure that we feel as American manufacturing companies that are due to regulatory efforts from the federal level.

We frequently see a fairly single-minded effort on the part of the federal agencies to regulate our industry in the best interest of the public well-being, but we often wonder if there is consideration given for the threat to and the pressure it places on jobs, both directly and indirectly within our boundaries and outside.

REPRESENTATIVE HAMILTON. Doug, let me interrupt you there.

MR. FENN. Sure.

REPRESENTATIVE HAMILTON. Do you have a sense—and George mentioned this as well—that the regulatory regime is really hostile to business? I'd like to get your attitude. I know specific regulations cause you heartburn here and there, but in general, do you feel that the Washington bureaucrats, and maybe some of the state ones as well, are up there just causing you all kinds of problems?

MR. FENN. Well, the emotional reaction would be yes. But I think in practical terms what we see is the people that are on a mission. They're entrusted with a single-minded, focused approach, and so consequently other considerations don't enter into the process.

REPRESENTATIVE HAMILTON. These are the people that actually come into the factory?

MR. FENN. No, we're talking about the federal level in Washington, the rulemakers.

REPRESENTATIVE HAMILTON. Okay. And the people that come into your plants who represent federal regulatory agencies, what's your reaction?

MR. FENN. Unfortunately, from what our experience has been, the turnover rate among those people is quite high. Their knowledge of the regulations they're charged with enforcing is poor. Their interpretation, frankly, is questionable. I can give specifics at this date or a future date.

What we find, typically, on the part of the people hitting the door of the factory is that they want to use the rules they possess to essentially move us from the position that we're in to an improved position. Whether it's a part of the regulation or not, it becomes a forcible negotiation, if you will.

REPRESENTATIVE HAMILTON. Do you have the same problem that George referred to, that you get differing interpretations from different people in government?

MR. FENN. Not within agencies. We generally have one agency that addresses one issue.

REPRESENTATIVE HAMILTON. Agriculture is a little special. They have some special problems there.

MR. FENN. We haven't seen any overlapping, necessarily.

One of the major problems with the way regulatory issues are handled is that oftentimes people don't know what the value of the regulatory rule is until someone has been cited, and then they have to defend themselves. We really don't know what posture is correct.

I would point out that this whole process, while it's intended to benefit the public at large, we have to question what it does for our country in terms of competitiveness and preservation of employment.

I support a theme that I hear at the table, and that is that we probably need to advance our cause as Americans through consensus rather than conflict, which has been our nature. The regulatory process is one that's driven totally and completely by an adversarial approach, and I don't know that that's in our best interest.

One other issue that is specific and important to our industry is the policy regarding the harvesting of timber on federal and private lands under federal control, the policy forwarded by the current Administration. It is reducing if not eliminating the low-cost timber sales. The way the costing is done is to seek to eliminate a natural resource from use in this country. An industry like mine relies on lumber and labor and capital to exist, and consequently we see this as a major, major issue.

As more federal land and private land is removed from access—and remember, this is a renewable resource; this is a crop just like the crop that George produces; it just has a longer growing cycle—as we remove that, the supply then becomes smaller. If the demand doesn't decrease—this is a very pure commodity situation—the price will rise.

Also, keep in mind that the quality of the hardwoods that exist in North America are considered superior in world markets; so consequently, there is a good export market for our material.

So, as the value of our dollar is low and the public lands that are available for harvesting are reduced, the demand stays high. We see more of our resources leaving the country and creating competitive pressures in the reverse sense in that they go to be converted in foreign markets and the products return to compete with our jobs here. It is a very complex and difficult process.

REPRESENTATIVE HAMILTON. Well, on the timber sales, what you'd like to see there—I'm speaking now about the federal lands, more management of resources——

MR. FENN. Yes.

REPRESENTATIVE HAMILTON. ——so that you do get timber cutting on the federal land.

MR. FENN. We'd like to see active management of the resource, yes.

REPRESENTATIVE HAMILTON. Treating it like a crop.

MR. FENN. Yes. One other issue that's also key to this—and on the surface it doesn't appear to be a part of it—is the Endangered Species Act.

We found through direct experiences over the last several years that this law has been utilized to take public and private property out of use by conjuring up an endangered species for an area and removing it from harvesting.

We understand and accept the purpose and benefit of that legislation, but the teeth that have been placed in it, and the liberal application of it, has also threatened the supply of raw material in this country.

I think that generally hits on the high spots.

REPRESENTATIVE HAMILTON. Just to comment on that briefly, if I may, I don't have any doubt at all that your and George's comments are on the mark. We have to get a much more common-sense approach to regulation, and that certainly means a cost benefit analysis.

I think so many of our regulations are put into place for worthy purposes but without much reference to how much it's going to cost either to enforce it or the cost stressed upon the producer.

And on this environmental matter, you've got to get a much better risk assessment—you know, what is the risk? You have to understand that a lot better before you fire off a lot of regulations. It's important.

I didn't mean to interject, but those are important points.

MR. FENN. I would encourage one other point. We had the—I think the title is the Assistant Director from the EPA—address a group recently. And in the Q and A part, we discussed one of the higher priorities that we have in industry, and that's the Clean Air Act and how that's going to be applied.

We asked the lady, knowing that the rulemaking process is nearly complete at this time, if we move as an industry now to embrace that rule and achieve the standards that are set, what assurances do we have that a different agenda won't come forth within that implementation

time? The capital that's expended and the research that's going to be lost—

REPRESENTATIVE HAMILTON. They'll move the goal posts on you.

MR. FENN. Yes. And I think that the one thing that I'd encourage is, in the context of regulatory efforts, it would be good to have people—I don't want to dwell on the single-mindedness—who have a broader perspective in terms of who we are and where we're going as Americans.

This is what we see, and I think George was talking about. When they come in, they have one objective and only one objective. And I think we have to consider that we're actually caretakers of the economy and of the jobs, and it's not an indiscriminate approach.

REPRESENTATIVE HAMILTON. Okay. Bill?

**DISCUSSION BY WILLIAM KOCH, JR., PRESIDENT, KOCH
DEVELOPMENT CORPORATION**

MR. KOCH. Okay. I'm with—

REPRESENTATIVE HAMILTON. This is a little different industry here.

MR. KOCH. We don't manufacture products out the door. We make smiles in our business.

Briefly, just to comment on the state of the economy from our point of view, we see the economy as looking very good. We see good growth in our particular business and in the tourism industry as a whole in our part of southern Indiana.

In addition, we also see the companies that join us for company picnics and outings and those sorts of things as increased business for us and increased spending from those folks. So we take that as a very good, positive sign for the economy of southern Indiana.

There are several specific areas that I'd like to comment on. One being, as we discussed earlier, the issue of infrastructure. Specific to our part of the country, in Spencer County and Dubois County, we appreciated very much Congressman Hamilton's support of and continuing efforts toward improving U.S. Highway 231, from the new bridge that Kentucky is building at Maceo on up to I-64, and then hopefully to continue that farther north as we go.

We feel that that is extremely vital to the development of tourism in our part of the county. It aids not only tourism, but also all commercial development. It provides a good link to the south, to the good highways in Kentucky and to Owensboro, and gives the folks from Owensboro a good link to east/west transportation on I-64. We see that as a very, very important element in the economic development of Spencer County.

In addition, we also are in favor of the proposed development of a highway connecting Indianapolis and Evansville, and feel that that could play a great role in the economic development of our area.

I would also like to echo what George and Doug have said regarding government regulations—maybe, from a slightly different point of view—from the point of view of not necessarily a small business, but maybe smaller than some of the other folks around the table here. It is a very substantial concern to us. We feel that the cost of complying with the continuing increases in government regulation is a very legitimate cost and something that adds to the cost of the product that we sell.

REPRESENTATIVE HAMILTON. Which regulators give you the most trouble in your business?

MR. KOCH. To be honest with you, we don't have so much trouble with regulators, from the point of view that we are not often visited by regulators, and don't have specific problems in that sense.

The problem that I'm referring to really is more the moral obligation that we feel to try and comply with most of these regulations.

One of the concerns I have, quite frankly, is that we don't have the staff or the resources to hire any great number of consultants to tell us what needs to be done to comply with all the regulations. I'm quite positive that there are regulations that we are not even aware of, that should the right regulator come through the door, we could be fined or perhaps prosecuted for, or whatever. I'm sure that's the case with every business.

REPRESENTATIVE HAMILTON. It's a very important point. I don't know how you describe yourself, but the small- or moderate-sized business is often blindsided by regulations. They don't know what the regulation is. They want to comply. They don't want to be out of compliance.

MR. KOCH. Right.

REPRESENTATIVE HAMILTON. But we have a big problem on information and getting information to the right people. The larger companies have the structure to deal with it. They have people who follow these things on a day-to-day basis. It's a formidable matter. I appreciate your mentioning it.

Excuse me for interrupting.

MR. KOCH. That's fine.

On another aspect of the explosion of regulation, everyone talks about entrepreneurship and that sort of thing. I personally feel that the amount of regulation present now is a very strong barrier to individuals starting a business simply because of the burden of having to know and understand the great amount of regulations present, and the fact that if you're not able to comply with at least a substantial amount of that, you simply can't start a business.

We also are very concerned about the changes that have occurred in the legal system over the past 15 to 20 years, with the explosion of the very large claims that are being awarded in liability suits and other suits of that sort.

We are certainly willing to pay for the costs of anything that we do that's our responsibility, but we feel the legal system has gone far beyond that to the point where whoever has the deep pocket is liable. It doesn't necessarily have to do with who was actually at fault. We are uncomfortable with that situation, and feel, again, that it affects the price of the product that we sell.

REPRESENTATIVE HAMILTON. Bill, one of the things that we're doing, for example, is on the Superfund legislation. Under current law today any polluter can be held responsible for the entire damage. You may have contributed 5 or 10 percent of the pollution, but you get stuck with a 100 percent of the liability, which is quite unfair.

MR. KOCH. Right, right.

REPRESENTATIVE HAMILTON. I think the law will be changed now so that the person polluting will still be liable, but only liable to the extent that they contributed to the pollution.

Now, that principle makes a lot of sense, I think—I think you'd agree with that—and probably needs to be extended elsewhere, because the legal system today does push it towards the guy with the deep pockets, no doubt about it.

MR. KOCH. Absolutely. I support that very strongly.

REPRESENTATIVE HAMILTON. Okay.

MR. KOCH. On the subject of education, I would also echo some of the concerns around the table. In our business, many of the folks we hire are high school and college-age students.

We feel that we provide a great service, in a sense, in our business, in that we provide young people with some money to help pay for their college education, and that we are also in the position—we're the first employer for many of them—to teach them work ethics.

I would comment that it is shocking to me the number who are juniors and seniors in high school, or even freshmen and sophomores in college, who can't properly complete a job application; can't spell the name of their high school, for instance. It's staggering, the things that we see on a day-to-day basis.

REPRESENTATIVE HAMILTON. Do you use the targeted job credits in your business?

MR. KOCH. We are not using it right now. We probably will next year.

REPRESENTATIVE HAMILTON. It runs out this year, and we have to renew it, I think. Any others of you use that?

MR. WRIGHT. Yes.

REPRESENTATIVE HAMILTON. Does Wal-Mart use it extensively?

MR. WRIGHT. I can't comment on "extensively," Congressman, but I do know we use it.

REPRESENTATIVE HAMILTON. You do use it? Okay. Excuse me.

MR. KOCH. I will comment on the subject of work ethic. I think we're blessed in this area, that the work ethic is much stronger, espe-

cially in our rural areas, than it is in many urban areas or other parts of the country.

We do feel like we've seen some erosion in the level of the work ethic in the past 10 to 15 years, and I think that goes along with the changes in the overall value systems in our communities.

With regards to education, I also want to mention one specific area that we have a concern with, and that is the suggestion to go to an extended school year or year-round schools.

We are very much in support of doing things to improve the quality of education for our young people. I think that's absolutely essential for all of the reasons that are mentioned today.

We do have a concern that the idea of year-round school, or extended school year, is very attractive and very interesting. It has a nice ring to it. But, unfortunately, the facts regarding cases where it has been attempted, such as in the Los Angeles area schools—where it was tried for approximately four years, and the schools have now gone back to a traditional school year—the evidence does not support the idea that this change by itself improves the quality of education; it does not improve SAT scores; it actually costs money for the schools, and does not truly seem to do any of the things that it is touted to do for the education system.

Naturally, we have a selfish interest there. The adoption of that kind of system could mean the end of our business and the end of our entire industry.

There is one other subject that I will just mention that's of concern to us and is not necessarily a federal issue. We noticed that our business is generally not considered, or is not affected by, legislation either at the state or local level—again, it is not so much a federal issue—but things that would provide incentives for the growth and capital expansion of other businesses are generally written for manufacturing businesses.

We feel that what we do—our park definitely has a substantial economic impact on our surrounding area—again, this is a comment on local government. We find it difficult sometimes to compete in a market against folks who are receiving substantial assistance from government, or are even government-funded recreation facilities. And we would just feel a little bit better on a more level playing field.

REPRESENTATIVE HAMILTON. Now, we have two people, Mike and Peter. Who wants to go next? Peter?

Peter is with Cummins Engine Company.

DISCUSSION BY PETER B. HAMILTON, VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, CUMMINS ENGINE COMPANY, INC.

MR. HAMILTON. I think a lot of my themes are going to get to be a little redundant here at the end, but that's good because it means large or small, agriculture or the plant floor, we seem to be in agreement on

what's important on the regulatory front. Doug and others, I agree very much with what has been said.

A federal regulatory agency is a government-sanctioned interest group, and we have spawned scores of them with thousands of laws.

Interest groups are not now, nor will they ever be, balanced in their approach to anything. They're not supposed to be. So it should come as no surprise that we have the problems that we have, as we are besieged by well-intentioned people who are single minded in their approach to their pantheon of laws that they have been told they have to support.

We appreciate the opportunity to express our point of view here. It's nice to not have to pay U.S. Air to meet with your congressman, so we do appreciate the opportunity.

Cummins is located and has been headquartered for 75 years in Columbus, Indiana. And we have had our largest manufacturing facility in Columbus, as well, for decades.

We have been a global company, and it is becoming more global now as time goes by. Approximately 50 percent of our sales are now overseas. That is a significant number of sales. It is probably going to grow in the future. We have major manufacturing facilities all over the world: India, Brazil, China, Turkey, Mexico, Japan, among others.

That sort of sets the stage for commenting on economic conditions in southern Indiana, which, as everyone else has said here, have really been quite good during this past 18 months or two years. The reason for that at Cummins is that much of what we make we sell overseas. And segments of the overseas economy are very good—China and Southeast Asia, in particular.

Some of the markets that we serve in the United States are very strong. Heavy-duty trucks will set a record this year. We sell a lot of diesel engines, which we make in southern Indiana, for pickup trucks, and that's a very good market this year. And some of our newer products we've chosen to start here in southern Indiana, so that's helped.

I could give you a blizzard of statistics about how our manufacturing over the past couple of years has moved up in terms of the number of engines we build. I won't do that. Just suffice it to say that in some cases, some of our plants in southern Indiana, be it in Columbus or Madison or Seymour, have gone from 20 to 100 percent increases in terms of engines that we put out the door.

Our employment over the past two years has gone up 15 percent in southern Indiana. That's a good indication that even though we're getting significant productivity increases from our work force and from the quality procedures that we put in, the business is good enough and the product is selling well enough that we're still able to hire more people. That's gratifying and good for the economy and the region.

In terms of steps to improve things, I won't say anything that hasn't been already mentioned here today; I will only reinforce them.

The questions of fiscal policy and the deficit are probably the most significant, we think, now and certainly in the future. The percentage of the federal outlays that are now going to the so-called mandatory programs—mandatory because we've made them so—and the interest to cover the borrowing for those programs is eating us alive, eating the economy alive, stifling investment that should be made now in all of our businesses. And that is a very, very serious problem now, and it will be a cataclysmic problem if it is not corrected for our children. That's nothing new, but I can only reinforce—

REPRESENTATIVE HAMILTON. Entitlements?

MR. HAMILTON. Yes. And I can only reinforce that every day, month and year that we wait in getting realistic about that only makes the solution, which must come, harder. The solution is possible now with some pain. It will be extremely painful if we wait another ten years. And the level of progress, at least seen from the industries at which we operate, is insufficient.

Tax policy. There are some proposals now on Capitol Hill that would change the tax laws to emphasize investment by businesses, be they on the farm or on the plant floor, as opposed to consumption in our economy. We think those tax proposals bear some serious thought.

Scrutiny by the Congress and social policy has been mentioned a lot at the table here today—

REPRESENTATIVE HAMILTON. Peter, from your standpoint, what kind of tax incentives? An investment tax credit?

MR. HAMILTON. That is an important one, but any tax proposal that will begin to recognize the importance of investment, be it in R&D or in capital equipment, and reflect that in deductibility for business, I think will be a very, very important stimulus for American business.

Social policy. All of the businesses represented here, I'm sure, want to pay our fair share to support the communities who invite us to be in their communities, but we don't want to get into a position in the global marketplace where we are paying an uncompetitive share.

I suppose the most likely candidate for increase these days is the so-called Health Reform Program. If health reform ends up increasing significantly the more than hundred million dollars a year we spend for health care at Cummins, I'm afraid that the cure is going to be worse than the disease.

REPRESENTATIVE HAMILTON. What kind of a percentage increase have you had in your health care, looking back, say, over the last five years? Do you know how much it's increased each year?

MR. HAMILTON. We have seen a leveling of our increases in the past year or two.

REPRESENTATIVE HAMILTON. Why?

MR. HAMILTON. Because the suppliers of these services have become far more productive in the way they have supplied services, be it the hospitals or the pharmaceutical companies or the doctor community.

But more important, business—Cummins among them—has been far more active and imaginative and has better managed the use of these health-care resources. We've done a better job of working with our work force to improve the cost effectiveness of the health care that our people get.

REPRESENTATIVE HAMILTON. I want to check that point with others. Do you have the same experience that Cummins is having on health care?

MR. WRIGHT. We have in the past twelve months. But we've also taken aggressive steps in the last twelve months to roll out our own hospital health network program, where we've worked with hospitals and doctors in every community that we're in to identify primary health care providers that limit their increases, as well as limit the fees on the services provided. We've basically put all of our buying power into one bank.

REPRESENTATIVE HAMILTON. So you've seen an improvement.

MR. WRIGHT. We've seen a flattening.

REPRESENTATIVE HAMILTON. A flattening.

MR. WRIGHT. I wouldn't say an improvement.

REPRESENTATIVE HAMILTON. Okay. David, you were shaking your head.

MR. TERRELL. We've seen a flattening, also.

REPRESENTATIVE HAMILTON. Have you?

MR. TERRELL. Yes. Same type of concept.

REPRESENTATIVE HAMILTON. Is that generally true now?

MR. FENN. I think one thing we ought to distinguish, though, because we don't want to treat this too lightly. This is a major and significant cost in the operation of a business today. And the flattening that we're discussing here, gentlemen, is still two-digit percentage figures. And I challenge anyone at the table to discuss increases in costs in their business that are equal to double-digit increases in health care.

What you're doing, you know, with the network and everything, may even defeat that big an increase. But I suspect we're talking about, at the table here, anywhere from 12 to 20 percent.

MR. WRIGHT. From 1992 through 1993, my division, the warehousing group, went up a little less than 20 percent. We've kept it flat since August of 1993.

REPRESENTATIVE HAMILTON. Flat, meaning—

MR. WRIGHT. Flat, at the level that it was—

REPRESENTATIVE HAMILTON. —same as last year?

MR. WRIGHT. Yes.

MR. FENN. But it's hard to feel good about that kind of inflation.

MR. WRIGHT. Yes, yes.

MR. FENN. And it also has a tendency to upend this situation that I mentioned earlier, you know, about competitiveness. It's quite difficult.

REPRESENTATIVE HAMILTON. Yes. Excuse me, Peter.

MR. HAMILTON. It is a significant problem and a significant expense. The question is, will the legislative solution improve it or not?

REPRESENTATIVE HAMILTON. Are we going to make it worse or not?

MR. FENN. Do you want to take a vote?

[Laughter.]

MR. HAMILTON. At a table where we have discussed regulatory agencies, among many of the solutions would be the creation of yet another major regulatory agency. So I'd just throw that out as something for us all to think about.

I guess the last thing I would mention has been reinforced by everybody, but I'd like to mention it as well, and that is education, be it in Jamestown, New York, or North Carolina or Columbus, Indiana. Kids coming out of the high schools, by and large, are not coming to us with the skills that enable them to do basic plant floor work.

REPRESENTATIVE HAMILTON. Peter, is it better or worse today than five years ago?

MR. HAMILTON. I don't have a good fix on that.

REPRESENTATIVE HAMILTON. The reason I ask that question is, we've been talking about the crucial need to improve the quality of education for a good many years.

I receive a lot of speeches that CEO's give around the country, and the theme that so many of those CEO's hit on is education, not just this year, but going back five, maybe ten years.

We've dealt with all kinds of legislation in the Congress on educational goals—[indicating to Dr. Greckel]—as you mentioned, Goals 2000. The states have probably been more involved in it than we have, and should be, because they have more of the responsibility. So I keep asking myself, are we getting improvements? Are we beginning to see any change?

MR. HAMILTON. I think what's happening, Congressman, is that the rate of change in the schools for improvement, if it has existed over five years, has not kept pace with the rate of change, be it on the farm or the plant floor, that we've talked about at the table.

MR. FENN. Or in the global market.

MR. HAMILTON. Or in the global market. The kinds of aptitudes that an entering person needs involve things like analytical capabilities, interactive skills, communications skills, judgment, intuition, imagination, all the things that make up the empowered work force, which are increasing our productivity as a company and as a country. And the changes there have been revolutionary over the past five years. The changes in education have been not there.

REPRESENTATIVE HAMILTON. Michael, we're going to move to close up. You go ahead, and then we'll ask Morton and Fay to wrap up for us.

**DISCUSSION BY MICHAEL RAMPLEY, DIRECTOR OF
ECONOMIC DEVELOPMENT, HOOSIER ENERGY**

MR. RAMPLEY. I'll be brief. I get to agree with everybody, I guess, since I go last, because I think everybody is right.

We talked with several of our customers prior to coming here today and asked them what they would say if they could be here. What we heard most often was regulatory reform.

We supply power to a lot of small- and medium-sized companies. In my department, we work with new companies and expanding companies.

Last year, our business was good. We had more than 40 new operations located in our service area. Those companies will create over 2,000 jobs, mostly in manufacturing.

It's tough if you're a small company and you need a permit to paint, for example, a piece of metal in southern Indiana. If you're going to hire 30 people, they better all be working on getting the permits in, because it's very time-consuming and expensive to get that done.

The pace of change in regulations was cited to us as a problem. It's very difficult, as several folks have noted here, to keep up with that. We have full-time people who do that with the Clean Air Act, and we can afford to. But a lot of small companies—and, typically, that's who we work with, firms that employ 40, 50 people, in that size—find it very difficult to do so.

I would also, I guess, echo what we've heard about infrastructure. Mr. Rust mentioned U.S. 50. Fay mentioned the bridge here on I-265. Somebody else mentioned I-69 to Evansville. It's clear to us in southern Indiana that our infrastructure is holding us back, particularly highway improvements. We see that as a critical problem on U.S. 50. Those are the arteries for commerce.

We need substantial improvements in the highway system, and notably perhaps in Southeast Indiana, in particular. It's a tough place to get around, as you well know. I know you've been to Vevay many times, and it's a hard place to get to unless you have to go there.

REPRESENTATIVE HAMILTON. Try going from Rockport to Liberty. That's from southwest to northeast in our congressional district.

MR. RAMPLEY. We also see and frequently hear about the need for more moderately priced housing in a lot of small communities and rural areas. A lot of jobs that are coming in are jobs that don't pay as well as some of the jobs that we've lost in the past. The disposable income just isn't there for many folks to put into housing.

We need housing that is affordable and perhaps financing programs to help get the money to those folks, to two-wage-earner families, so they can afford a decent place to live.

REPRESENTATIVE HAMILTON. Jack, you mentioned in this moderate housing—what did you say, 50 to 75 thousand—

MR. RAGLAND. Fifty to seventy-five thousand dollars.

REPRESENTATIVE HAMILTON. That's a tough spot, isn't it?

MR. RAGLAND. There are no builders who want to go build those price homes. They don't make the kind of money they can if they build 125 or 150 thousand dollar homes.

REPRESENTATIVE HAMILTON. So, in that home price level, what's the implication of what you said? Does that mean you have to subsidize that price level?

MR. RAGLAND. It means that it's not out there. It means that a lot of people that need and can afford that price housing are still renting or living at home, or wherever it might be.

REPRESENTATIVE HAMILTON. We've noticed in our office a big pickup in the number of people wanting housing in the last few years. We've been getting a lot more inquiry about it. So I think the supply of housing in southern Indiana is reaching a more critical point.

DR. RICE. And almost impossible to restore. This was brought up in one of our discussion groups, that financing for that is almost impossible, and some breakthrough is needed so that you can take an existing house and restore it.

MR. RAGLAND. Right.

DR. RICE. It's almost impossible to do that.

REPRESENTATIVE HAMILTON. Okay. Let's wrap it up. You have about four or five minutes each, and then I'm going to bang the gavel.

DR. MARCUS. One point that I'd like to make is that everyone talked about how good things are. I would hesitate to project that into the future.

I think that the rate of improvement in the economy is likely to slow down in the next twelve months, and that it would be very helpful if people remember that these good times may be the spike that we saw in the fourth quarter and that we're not going to see future quarters be quite as good, and some of the enthusiasm may be diminished.

As that happens, then some of the current demand for workers will diminish, and many of the traditional problems of southern Indiana will continue; and that is, how do we get jobs and how do we finance our activities?

I think one of the continuing themes here has been the idea that we need a work force that would include federal regulators who have a wider view of whatever it is that they're doing. We can't have people on the shop floor who understand just the job that's in front of them. At the same time, we can't have those who make regulations look only at the job that's in front of them. This is not the kind of thing that the Federal Government can address very directly.

The issues of education are basically local issues. And the Federal Government has proven over and over again that, at least in my view, the best thing it can do is call a conference and do very little else.

REPRESENTATIVE HAMILTON. On education?

DR. MARCUS. On education, it can provide some money for school buildings, which provides some local relief on taxes, but in other areas, the Federal Government has not been very effective in education.

REPRESENTATIVE HAMILTON. Okay. Fay?

DR. GRECKEL. I was pleased, I guess, and impressed with the general consensus—not really surprised—but the participants did seem to all have the same observations of the economy that we're all a part of.

One very small point that was made was something that I hadn't thought about before, but which is do-able, although more at the state level perhaps, and that was educating or training economic development agency teams to do a better job of presenting their information. I think it is nice to get something out that is do-able when we look at all these major problems.

I agree with Morton, the education problem—which I think is very real and is a long-run problem and is going to be an extremely important one nationally, as some of you mentioned, but particularly in southern Indiana—is not an easy one to solve, and it can't be done on a national level.

But on the other hand, on a local level, the problem is that there isn't enough appreciation of the importance of getting these basic skills and finishing high school and recognizing how the economy has changed, how the opportunities have changed, and that you cannot just go back to the farm and do things the way they were done 20 years ago. You cannot find an easy, repetitive job in a factory or a service industry, and especially one that pays a decent wage.

It is a communication and more of a community education challenge. And I really think there's a challenge there. I don't have a suggestion for a solution, but I think the larger companies that are trying to do something to help educate their workers, and indirectly the community, certainly are on the right track.

We all agreed there were infrastructure needs, although I recognize that you could call a conference like this at any time and with any group, and we'd all find something we wish the government were helping us build. But I think these are real needs, and they represent real bottlenecks for economic development and for access to markets, and so on.

Regulation, again, is not a surprising theme, particularly for the group that's here, and I don't know any way to sum up what was said. I think the points made will speak for themselves.

Regulation is adding to the costs and the uncertainty, and I think uncertainty is a particular problem that people spoke about, which can and should be addressed. However, much we might agree with objec-

tives of some of the regulations, if we could remove the uncertainty for businesses, that will, in and of itself, lower costs.

REPRESENTATIVE HAMILTON. Okay. I've been immensely pleased with this discussion. I think we've encapsulated an awful lot of good information here. I thank each one of you for your contribution and participation.

What we're going to do here is summarize the discussion. Mr. Buechner, who's sitting behind me, will glean from this discussion a lot more than you thought it was possible to glean, I can assure you, and we will distribute the summary to you.

I just want to put in a plug for Dr. Rice's effort at the southern Indiana Rural Development Project. I hope that each of you and your enterprises will feel free to contact him with ideas. I hope you'll try to contribute to the work that he's doing, because I think it's the best single effort that I have known to understand southern Indiana and to make recommendations for improvement. And Dr. Rice is very grateful for your leadership on it.

I know that Thayer Richey, who is here, has had extensive experience in this, working with all kinds of economic developers in Indiana. I'm quite excited about what they're doing, and I am quite confident that they've learned a lot from your discussion.

We stand adjourned.

[Whereupon, at 3:00 p.m., the Committee adjourned, subject to the call of the Chair.]

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