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# THE STATE OF THE ECONOMY IN INDIANA

## HEARING

BEFORE THE

## SUBCOMMITTEE ON ECONOMIC GOALS AND INTERGOVERNMENTAL POLICY

OF THE

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

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### SUBCOMMITTEE ON ECONOMIC GOALS AND INTERGOVERNMENTAL POLICY

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TUESDAY, APRIL 21, 1981



## SUBMISSIONS FOR THE RECORD

TUESDAY, APRIL 21, 1981

# THE STATE OF THE ECONOMY IN INDIANA

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**TUESDAY, APRIL 21, 1981**

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMIC GOALS
AND INTERGOVERNMENTAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 8:30 a.m., in room 226, Indiana Convention Exposition Center, Indianapolis, Ind., Hon. Lee H. Hamilton (chairman of the subcommittee) presiding.

Present: Representative Hamilton.

Also present: Vanda B. McMurtry, Deborah Matz, and Mary E. Eccles, professional staff members.

## OPENING STATEMENT OF REPRESENTATIVE HAMILTON, CHAIRMAN

Representative HAMILTON. Good morning, let's get underway. I'm very pleased to welcome both of you before the subcommittee for a general discussion of Indiana's economy.

In Washington this year, this is the year of the economy. The economy will be the focus—almost the sole focus—for Congress and the President in the months ahead. We all understand that the health of the national economy will have a profound impact on the health of the economy in Indiana, but Hoosiers should not just sit back to see what happens in the national level. There are things to be done here at home.

We've all heard a good deal about the problems of our older industrial regions, the contraction of key industries, the outmigration of jobs and the resulting high rates of unemployment. Much attention has been paid, as well, to the serious difficulties that beset our agricultural sector, high interest rates and soaring costs of production, to name just two. Unfortunately, we in the Hoosier State are experiencing all of these problems firsthand. Our ability to generate new economic activity in the State will be critically tested, particularly if the recovery of our principal manufacturing industries does not produce additional jobs.

It's my impression that the recession of 1980 hit Indiana very hard. Not within my experience in Congress have Hoosiers suffered so much from a downturn in the economy. Moreover, I have detected among many Hoosiers a deep concern about the future economy of the State. I do not want to overstate this concern, but I think we can all agree that the economic outlook for the State is uncertain enough to warrant a hard look, and such is the objective of this hearing, to bring together leaders from government, business, university, labor, agriculture, so that we may learn from them something more about where we are now and where we are headed.

I hope that our distinguished panelists will discuss the strengths, as well as the weaknesses, of the State's economy, and the prospects—both long- and short-term—for improvement. I also hope that they'll go beyond an analysis of conditions to suggest some specific solutions.

As I've already mentioned, Indiana's economic troubles are not unrelated to the disappointing performance of the Nation's economy. However, we cannot depend on economic growth alone to stop inflation, bring down unemployment, satisfy the massive needs of our basic industries, and restore our farms to prosperity. Rebuilding our economy, both here in Indiana and at the national level, will require close cooperation among government, industry, academia, labor, and agriculture. We should recognize the value of common approaches to problem solving. We should be open to new ways of governing, doing business, and working. I'm grateful that our panelists will be joining us this morning. The record of the hearing will be published by the subcommittee expeditiously after the hearing, and I want to say that I and my colleagues will be receptive to any Federal actions that ought to be taken to help resolve some of the problems. So, let us proceed.

Our first witness will be the Honorable John M. Mutz, the Lieutenant Governor of Indiana, and after him, the Honorable Louis Mahern, the assistant minority leader for the Indiana State Senate. May I suggest that we hear from each of you briefly and then we'll open it up for general discussion. Lieutenant Governor Mutz, you may proceed.

## STATEMENT OF HON. JOHN M. MUTZ, LIEUTENANT GOVERNOR, STATE OF INDIANA, ON BEHALF OF HON. ROBERT ORR, GOVERNOR

Mr. MUTZ. Thank you very much. I want you to know that I appear here this morning on behalf of Governor Orr and myself. As head of the State department of commerce here in Indiana. Governor Orr had intended to be here and instead was called to the Capitol and President Reagan had requested him to be present at a meeting there, and so I'm here speaking on behalf of both of us.

The statement that you just made I think pretty much summarizes the basic problem in Indiana. Our dependence in this State on two kinds of industries, that is the primary metal industry and the transportation manufacturing industry have placed us in a situation in which an unbalance appears in the Indiana economy.

Basically 30 percent of the value added by manufacturers in Indiana is concentrated in the two industries that I've just mentioned. I think probably that we have in Indiana enjoyed a situation in previous years in which when a downturn of the economy occurred and then a recovery followed, those industries were strong and vital and recovered to the same degree, and in some cases exaggerated the degree, of recovery in the rest of the United States. However, during the recession of 1974–75 and the current recession, it looks unlikely that the kind of recovery will take place in Indiana that has taken place in previous years, so this brings us to the question as to what are the basic problems that industry in Indiana faces.

I would suggest to you that the first of these is the worsening competitive position of American products on the world and domestic markets. I attribute this basically first to the fact that American products cost more to produce because much of our capital stock is older than that in foreign competitors. Second, American workers are paid higher wage rates than are their foreign counterparts. Third, American industries have higher costs of meeting environmental, health, safety, and consumer protection regulations than foreign competitors. Obviously, added to these points is the fact that we have a difficult time at the present time in obtaining long-term financing for needed capital improvements at reasonable rates of interest, and especially in the auto industry of developing a product mix which is adequately framed to meet changing market requirements.

Now it's my feeling that what we have to do in the future is to basically concentrate on two basic problems. One is what do we do for industries that are already in Indiana and who provide the basis of our economy at the present time. Second, what are those programs, both Federal and State, which can help us in a very aggressive economic development program for the State of Indiana aimed at diversifying the economic base and preparing us for the high technology industries of the future. In looking at these from a Federal perspective I would say that existing industry primarily will be dependent on what the Federal Government does in the next 9 to 10 months. Among those programs which we would endorse include the following: Investment could be made more attractive by accelerating the depreciation on capital equipment; two, funds for capital development could be made more available by reducing personal income and capital gains taxes to encourage private sector savings and capital formation; three, we should reduce inflation, which should result in lower interest rates and the increased willingness on the part of business to invest; and four, we need to reduce the burden of Federal regulations of all sorts.

Now, if you look at those points, I think they are strangely reminiscent of the Reagan economic recovery program, and it is our feeling that that program does, in fact, offer the best opportunity for a strong economic recovery in the United States. Governor Orr has made it very clear that although this program involves sacrifices in some areas in order to become a reality that we wholeheartedly support it. About 5 weeks ago the Governor called his department heads in and he said that any one of you who goes around me and asks the Federal Government to reinstate budget cuts or to lobby the Federal Government, either its congressional delegation or members of the administration, will no longer work for the State of Indiana; in other words, he wants to make it crystal clear that we are willing to accept the kinds of sacrifices in terms of governmental programs administered by the State of Indiana which will be required to put that budget cutting program into effect.

Now, being more specific about some of the Federal policies that affect Indiana specifically, we feel the Federal Government needs to tighten the administration of such programs as EDA, HUD, FHA, and other development grant programs. There is evidence to suggest that some grant programs from these programs are being used to entice firms to relocate from one geographic region to another rather than creating new jobs. This is particularly hurting the Northeast and Midwest. Second, we believe that we should encourage the development of new technologies which enable us to further develop and utilize domestic energy resources, particularly coal, which is an abundant resource in the State of Indiana. Third, we suggest it is important to reduce the differential effects of subsidies to certain transportation industries which benefit some areas of the country to the detriment of the others. Fourth, we hope that we can move in a direction that reduces the differential in spending for resource development, particularly water resources, which favor certain areas of the country over others.

I would suggest to you that as Indiana moves into the 1980's we intend to have one of the most aggressive economic development programs that the country has ever seen. We're going to be building on four or five basic advantages that the Indiana economy still maintains. One of those is our geographic location; second is our rather magnificent network of transportation facilities; third is a highly skilled and adaptable labor force; fourth is Indiana maintains large quantities of fresh water, coal, hardwood forests, abundant farmland and other natural resources; five, we have, we believe, a business tax climate in this State which is second to none, particularly true when you compare our rates for unemployment compensation and workmen's compensation to States against which we compete.

Now, in our efforts to take advantage of those advantages, Governor Orr and I have asked the legislature in this last session to adopt an 11-bill package with an approximate price tag of around $10 million a year designed to give the Department of Commerce and local communities additional tools in competing for economic development. When you recognize that we are working against a substantial difficulty in terms of resources that are available, that is, through the tax system in Indiana, you recognize that this is the major priority of an Orr-Mutz administration. Included in this group of bills and funding is special aid to local government to build the infrastructure that's needed to attract industry; second is a program to coordinate and enhance training and retraining of Indiana workers for jobs for specific opportunities; third, we are talking about a program of enhancing and enlarging our tax abatement system which currently applies only to improvements on property, we're adding business, personal property to the tax abatement system that currently is available in Indiana; fourth, we're going to make a very strong effort in encouraging the development of small business and new technological industries in the State of Indiana. Now, we hope to do that by a variety of programs. One, of course, is the availability of expertise for the small businessman, and, second, and probably most important, is the development of a series of pools of venture capital in Indiana.

We have a bill which is awaiting the Governor's signature which creates a Corporation for Innovative Development in Indiana. This particular bill utilizes a system of tax credits, 30 percent on State tax liabilities for businessmen and corporations who invest in the Corporation for Innovative Development. This system of tax credits, which is 30 percent of the amount of money invested, is also available in proportionate shares to SBIC's in which the Corporation for Innovative Development decides to invest on a 5-to-1 basis. For example, if this corporation were to make a $500,000 investment in an SBIC it would automatically grant to other investors in that SBIC $2.5 million against which a 30-percent credit could be applied, so our efforts here are aimed at creating a diversion of capital from wherever it goes presently to investment in a corporation in which risks will be taken and risks will be taken on the basis of the new job and business opportunities of the future.

Small business, as far as we're concerned, is where a good deal of the new job creation will take place in the next 10 years. The U.S. Department of Commerce and others have estimated that 61 percent of all new jobs created in the next 10 years will be in businesses with 25 or fewer employees, and so we think this particular approach is absolutely essential in Indiana which currently has only 1 operative SBIC in the State at the present time.

Now, I bring this up at this moment because we received word last night that the SBA has decided to suspend further issuance of licenses for SBIC's. Now, this may be the result of a new man taking over the particular job that he has just assumed, and we were told that it's likely to be a brief suspension or moratorium on the granting of SBIC's, but, in any event, it seems to us that, of course, this tool is one of those areas in which we can encourage the use of private capital to develop the economy and the inability of our investors to obtain licenses for SBIC's would severely curtail the activity that we have in mind as far as small business is concerned. These are a few of the programs that we're talking about at the present time, but I'm pleased to have a chance to participate with you this morning.

Representative HAMILTON. Thank you very much, Mr. Lieutenant Governor. I think it might be appropriate if we hear now from State Senator Mahern and then we'll direct some comments and questions to each of you.

[The prepared statement of Lieutenant Governor Mutz follows:]

PREPARED STATEMENT OF HON. JOHN M. MUTZ, LIEUTENANT GOVERNOR, STATE OF INDIANA, ON BEHALF OF HON. ROBERT ORR, GOVERNOR

Good morning.

The witnesses who have been asked to testify today have been given the assignment of assessing the major problems with the economy in Indiana and suggesting ways to solve them.

The overriding concern about the structure of Indiana's economy as it currently exists is its dependence on industries which tend to amplify changes in the national economy and industries which are in a general state of decline due to foreign competition, the petroleum situation, resource constraints, lack of capital, and other similar factors.

Thirty percent of the value added by manufacturers in Indiana is concentrated in two industries which exhibit both characteristics, the primary metals industry and transportation manufacturing (mainly autos and auto parts). These two industries also employ about 25 percent of all people engaged in manufacturing in the State. The structural imbalance in the economy is even more serious when you add in the numbers of persons employed in related businesses, support services, retail outlets and other businesses dependent on these industries or their employees.

Other industries making significant contributions to the state's economy include electrical and non-electrical machinery and fabricated metals, and they too exhibit characteristics and problems similar to primary metals and transportation equipment industries.

For the first two decades after World War II, when primary metals and auto industries were thriving and growing, the increasing structural imbalance in the state's economy did not cause many significant problems. In fact, companies

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in both industries made highly significant contributions to the growth and well-being of the state and its people. Only in the last ten to fifteen years have significant problems surfaced which have eroded the strength and significance of those industries.

The problems Indiana industries face are many and varied. Among them are:

The worsening competitive position of American products on world and domestic markets. This is because: American products cost more to produce because much of our capital stock is older than that of foreign competitors and utilizes less efficient technologies; American workers are paid higher real wages than their foreign counterparts; American industries have higher costs of meeting environmental, health and safety, and consumer protection regulations than their foreign competitors.

Another problem is the difficulty in obtaining long-term financing for needed capital improvements at reasonable rates of interest.

The difficulty, especially in the auto industry, of developing a product mix appropriate to changing market conditions resulting from petroleum price increases.

Unless we solve these problems, the economy of the state will not rebound sharply from the latest slowdown as it did from similar slumps in the fifties and sixties, because these industries will not rebound. Indeed, there is evidence to suggest that the state never fully recovered from the 1974–75 recession before encountering the current slowdown.

The solutions to these problems probably fall into two categories:

Those solutions intended to strengthen the industries already in place in Indiana; and

Those solutions intended to help economic development activities in the state which are designed to diversify the economy away from dependence on durables manufacturing and primary metals.

The problems afflicting Indiana's durable manufacturing and primary metals industries are national problems, and the federal government must implement national solutions. There are several steps which should be taken in order to make the American economy leaner, stronger, and more competitive.

Investment can be made more attractive by accelerating the depreciation on new capital equipment.

Funds for capital development can be made more available by reducing personal income and capital gains taxes to encourage private savings and capital formation.

We should reduce inflation, which should result in lower interest rates and increased willingness by business to invest.

We need to reduce the burden of federal regulations of all sorts, so overhead costs can be lessened and so producers can spend more effort responding to market demands rather than regulatory requirements. We are an over-regulated society. Somewhere, there is a balance between the benefits of regulations and the costs incurred by the manufacturers and consumers resulting from them. We've got to find the balance.

We think the best way to accomplish these goals is for the Congress to adopt President Reagan's economic program. There have been many efforts already to chip away at the program, to dilute it. If the program is watered-down, it won't work. I don't want to fly in half an airplane, or drive half a car. We can't be nourished with half a meal. Half the Reagan economic program won't even go half way toward meeting the goals.

Governor Orr is meeting with the President today, and they will be discussing the economic program. I can tell you how Bob Orr feels about the Reagan proposals. I have been in meetings where he has told his state department heads to cut back, and live with the Reagan proposals. He tells them that if any of them try to lobby for more money, they won't be working for state government any longer.

On the federal level, many of the same broad policies which will encourage new life in the auto and steel industries will also contribute to a stable business environment for general development and diversification.

The federal government also needs to:

Tighten the administration of EDA, HUD, FHA and other development grant programs. There is evidence to suggest that some grant funds from these programs are being used to entice firms to relocate from one geographic region of the country to another. This is hurting the northeast and the midwest most of all.

Encourage the development of new technologies which would enable us to further develop and utilize domestic energy resources such as coal rather than those which must be purchased on interstate or international markets.

Reduce the differential effects of subsidies to certain transportation industries which benefit some areas of the country to the detriment of others.

Reduce the differential in spending for resource development, particularly water resources, which favor certain areas of the country over others.

The flight of industry to the sunbelt is not merely the culmination of the effects of natural market forces. Rather, there is substantial impetus being given this trend by these and other federal policies.

This area of the country, and Indiana in particular, has many assets which would allow it to compete effectively in the economic development game if market forces were left to operate on their own to determine the outcome. Right now, the game is rigged against us. But many of the policies the State of Indiana has been pursuing and will continue to pursue emphasize our state's basic assets.

Indiana has a strong geographic position. We are strategicallv located in the middle of the industrial heartland . . . close to major markets for virtually every industrial product imaginable . . . and close to wide varieties of raw materials. We will continue to emphasize transportation facilities as a major portion of the development of our state. Such facilities include our interstate and state highway network, expanded ports and enhanced air transport facilities.

Indiana's labor force is highly skilled and adaptable. We will enhance that resource by continuing our support of vocational and technical education, university education, and training in new skills for workers who need jobs in developing industries.

Indiana has large quantities of fresh water, coal, high quality hardwood forests and other natural resources. We will continue to advertise this little-known fact, and continue to emphasize that this valuable natural resource base must be developed responsibly.

Indiana's business climate is among the best anywhere. Indiana state government is actively involved in creating a climate favorable to the development of new jobs for our citizens by maintaining a reasonable structure of state taxes and a stable fiscal position while maintaining an acceptable level of government services. We believe that in this way business will thrive, and every citizen of our state will benefit. Frankly, we're encouraged by signs we see that the federal government is beginning to align itself with a policy which has almost become a tradition in Indiana.

The state is targeting industries which can take advantage of what we have to offer in terms of an existing industrial base, labor force, resources, and the like, while at the same time contributing to the solution of structural and geographic imbalances in the state's economy.

We believe that it is more sensible and more productive in the long run to enhance our economy by capitalizing on market forces rather than by relying too heavily on financial incentives which provide reasons for firms to locate in an area, but not necessarily to stay. Indiana will compete in the financial incentive game when we must, but we are also confident of our ability to provide an environment in which businesses will thrive once here. This is healthier for everyone concerned.

With this goal in mind, Governor Orr and I have proposed and are carefully watching our 11-bill, $10 million economic development package, which is now being considered in the Indiana General Assembly.

One good example of the kind of strategy we will be trying to follow is contained in a bill calling for the establishment of a Corporation for Innovation Development. It would provide seed money for small businesses which have a potentially valuable idea, but no cash to develop it.

If we can give enough support to ideas, and to those who want to take calculated risks, we can develop our economy and look to better days ahead.

The people who are most affected by our economic problems, and that means everyone, are looking to those of us in state and federal government to give them a hand. They don't want a permanent hand out, but they want a chance to succeed on their own.

If we have President Reagan's economic program combined with our state program, we can be successful.

I believe it's up to us.

Thank you.

Representative HAMILTON. Mr. Mahern, please proceed.

## STATEMENT OF HON. LOUIS MAHERN, ASSISTANT MINORITY LEADER, INDIANA STATE SENATE

Mr. MAHERN. Thank you, Mr. Chairman. I appreciate the opportunity to discuss the Indiana economy with the subcommittee. While I'm not an economist, the subcommittee obviously affects my constitutents and the people of Indiana very directly. All the economic evidence indicates that the Indiana economy is in the midst of a long-term decline. Our unemployment rate has hovered around double digits for over a year. The recent improvements in unemployment primarily reflect workers withdrawing from active job searches or exhausting their unemployment benefits.

Indiana University Business School has produced research showing that with each national recession Indiana drops deeper, stays longer, and never fully recovers. At first glance it may seem as though the Indiana economy is fairly sound. In the last election we were constantly reminded of the 275,000 jobs that have been brought to Indiana during the previous administration. Unlike other States we are not having to endure across-the-board pay cuts for schoolteachers and government employees, but I believe that on more sober analysis would show that the accolades for our subcommittee are a bit premature. Between the 1980 election, and today, Indiana employment has dropped by about 95,000. The Governor's 275,000 jobs that were created seem to be disappearing rather quickly. Meanwhile Indiana has experienced a net outmigration of about 150,000 people in the 1970 to 1979 period, a loss we believe of many productive households.

The Indiana economic structure has not been static as can be seen by reviewing the changes in its employment patterns. Manufacturing employment has dropped by about 52,000 in the last 8 years, a loss of about 7.3 percent, while nonmanufacturing employment has risen by 230,000 or up about 19 percent. As the Lieutenant Governor has said, much of Indiana's manufacturing decline is due to losses in steel and auto sectors. Employment in these two sectors now stands at about 22 percent below its mid-1970's peak. Steel and autos account directly or indirectly for about one-third of the manufacturing jobs in Indiana.

By the same token, earnings in the manufacturing sector, while they've only dropped about 5 percent in other sectors of the economy, particularly in the service sector, earnings from 1972 to today are down about 18 percent and they're down about 24 percent in the trade sector. It seems to me that we're going to be confronted with some choices over the next several years, whether or not we are going to continue to rely—or I should say over rely on the manufacturing base of our economy or whether we're going to try to move into new applications of industrial technology.

I don't believe that we will get into the field of industrial technology by mistake. I think that we must make good policy and we must be willing to consider the economic policy questions with the seriousness that they deserve. I think we need to be clear about the type of firms whose growth we are encouraging, and we must be clear about the areas of economic activity in which we wish to encourage growth.

The economic development has become the latest buzz word in campaign rhetoric, and our new crop of political leadership at the State and national level have embraced this effort. Over the last several years because of policies of taxation in Indiana and what I believe to be an over-reliance upon the Federal Government for grants and for the funding of many of the basic services in Indiana, we could be in for some very tough times. As the budget cuts are made in Washington there will be a severe test of will, I think, on the part of the State legislature and local units of government as to whether or not they're willing to pick up the cost of the services. The question of tax concessions and whether or not we have a good tax climate in Indiana, there seems to be some dispute as to the worth of the tax concessions and tax breaks to draw business.

There was a study done by the National Council of Urban Economic Development released in 1980 that concluded that there is no evidence that tax concessions had any significant effect on local business growth. State and local taxes are relatively unimportant as location determinants and are not a major business cost. Mr. Birch from MIT was far blunter writing that it makes little sense to attempt to influence firms to move; in fact, the Indiana Business Review found that even right-to-work laws don't seem to significantly affect the rates of business growth. Given that the State must include economic policies among its priorities.

What kind of firms should Indiana pursue? The Mr. Birch studies at MIT shed some light here, and to reiterate a bit what the Lieutenant Governor has said, Mr. Birch has found that small businesses generate in excess of 60 percent of all new jobs and that of the job generating firms they tend to be small, they tend to be dynamic, the kind of firms, unfortunately, that many banks feel very uncomfortable about loaning money to, they tend to be young; in short, the firms that can and do generate the most jobs are the ones that are most difficult to reach through the conventional policy initiatives.

Another finding of these studies is that while corporate flight occurs infrequently there is a great deal of interregional control even in the trade sector, and the great majority of jobs generated in the South are controlled by the Northeast and north central parts of the country.

Both of these findings suggest that State government must establish policies on the channeling of investment, risk capital must be available to risk takers, perhaps with the Government playing a brokerage or insurance role.

Lieutenant Governor Mutz has mentioned the venture capital initiative that the State legislature is currently working on, House Bill 1284, and I would echo his concerns that now that we have this initiative going that the SBA be very careful not to undermine what we're trying to do here in the State of Indiana. I must say, biting hard parts and nails, that the Lieutenant Governor is off to, I believe, a very good start in terms of economic development and the package of bills that he has proposed to the legislature has received wide bipartisan support and I see direct applications for many of these proposals in my own intercity district.

Besides considering the specific needs of firm types, Indiana must focus on some specific areas in which development initiatives will be fruitful. My own suggestion is that Indiana key in on the technological applications of the information and computer revolution. Futurists and economists agree that the way to the future is through the computer and not necessarily through the grille of a Chevy V–8.

Our State, particularly Purdue University, is now producing many competent technology graduates, but we are not retaining them. Seventy-five percent of Purdue's engineering graduates leave the State of Indiana. Indiana must forge strong research and development linkages between the government, university, and private sectors, as a recent "Science" article suggested. There was, in fact, an article, I believe, just last Friday in the Wall Street Journal that talked about plans that Rensselear Polytechnic Institute in Troy, N.Y., had to develop a technology center on 1,200 acres of nearby land where the companies will take 50-year leases for the land and the idea is to forge this link between the university and research, basic research, that may be going on in the university and technical applications that they may have in the private sector. There are other of these university affiliated research parks throughout the country, but for some reason the development of new ones has tapered off in the 1970's.

The State of Indiana must play two roles in forging this process. First, it must adequately fund its universities and schools, rewarding academic initiative. We must face head on the remarks of Mr. Lewis Branscomb, chief scientist of IBM, who said to Congress just last month that, "We dô not have enough faculty to provide engineers trained for advanced research and technology activities, nor is there adequate equipment in the universities to give these engineers a modern training."

Second, the State must provide the initiative for basic research ventures, jointly sponsored by universities and private firms, aimed at developing certain generic insights into areas of technology which have the potential for rather broad applications. As an example, Purdue University could be the site for broad-ranging research on agricultural and technological applications of cybernetic systems advances. Environmentalists at Indiana University might investigate the meaning of these advances for the task of nurturing our environment.

Far-sighted programs of this type might encourage our best and brightest to stay in Indiana and try out their revolutionary ideas here and not in San Luis Obispo. We might consider the example of Massachusetts, whose textile mills and shoe factories are dead, but which has built a prosperous State rich in resources and learning on new industries, and leaving the shells of dead factories to the wreckers' ball.

Representative HAMILTON. Well, thank you very much for these very thoughtful statements, gentlemen.

[The prepared statement of Mr. Mahern follows:]

PREPARED STATEMENT OF HON. LOUIS MAHERN

*The Two Futures of the Indiana Economy*

Thank you for this opportunity to consider the Indiana economy—why it's broken, and how it can be fixed. My remarks must necessarily dwell on the darker side of the dismal science, but I will attempt to sketch some ideas about where Indiana's escape hatches may lie.

All the economic evidence suggests that the Indiana economy is in the midst of a long-term secular decline. Our unemployment rate has hovered near two-digits for over a year; its recent improvement primarily reflects workers withdrawing from active job searches or exhausting their unemployment benefits. The Indiana University Business School has produced research showing that with each national recession, Indiana drops deeper, stays in longer, and never fully recovers, unlike other states.

At first glance, it might seem that Indiana is economically sound. Our new Governor never tired of telling us during the 1980 campaign that his economic development efforts had brought 275,000 jobs to Indiana. Unlike our surrounding states, we are not so budgetarily strapped that government and school payrolls must be cut across-the-board. Most of my Republican colleagues in the State Senate believe that if we suck up our gut and hold our breath for a year, days of plenitude will return.

A sober analysis, however, reveals that accolades for Hoosier economic sex appeal are premature. First, between the 1980 election and today, Indiana employment has fallen by 95,000. The governor's 275,000 jobs are seemingly disappearing fast.

Second, our research indicates that 34 percent of Indiana's job growth between 1972 and 1980 is due to higher labor force participation rates, while the other 66 percent is due to increased population in the 18-65 age brackets. The Indiana Employment Security Division has independently estimated that 77 percent of 1970-81 job growth is due to the influx of women into the labor force.

Meanwhile, Indiana has experienced a net out-migration of 150,000 people in the 1970-79 period, a loss of many productive households.

In a broader sense, it is inaccurate to speak of Indiana's "job growth", as if this were a process whereby everything else remains constant, and each week another Wendy's or Burger Chef materializes from the void. Widely-cited research by MIT's David Birch has shown that each year the rate of job loss, through firm deaths and contractions, is about 8 percent in the U.S. economy. Just staying in the same place, then, means continually generating new jobs. Using Birch's figures, we can estimate that in the 1972-80 period Indiana had approximately 1.23 million job "deaths", versus 1.4 million job "births". The implication of this finding is clear: successful economic development is not a matter of servicing and maintaining existing jobs, along with attracting certain new ones; it is a matter of creating successful dynamic conditions whereby job "births" outweigh the inevitable and constant level of job "deaths".

That Indiana's economic structure has not been static can be seen by reviewing changes in its employment patterns. Manufacturing employment has dropped by 52,000 in the last eight years, a loss of 7.3 percent. Meanwhile, nonmanufacturing employment has risen by 230,000, plus 19 percent.

Most of Indiana's manufacturing decline is due to losses in the steel and auto sectors. Employment in these two sectors now stands 22 percent below its mid-70's peak. Steel and autos account directly or indirectly for one-third of Indiana manufacturing jobs.

These divergent trends in job structure have been accompanied by bifurcated trends in average weekly earings. Earnings in the manufacturing sector have held up pretty well; measured in 1972 dollars, manufacturing employees earned $383 weekly in 1972, versus $361 now, a drop of just 5 percent. But in all other economic sectors, average weekly earnings have declined markedly. To cite two examples, service-sector workers earned $218 (1981 dollars) in 1972, but only $179 now; while trade-sector employees averaged $247 in 1972, but only $816 last month. That is, for every dollar these employees took home in 1972, they're taking home 75 percent now.

It is easy to get lost in figures; a recitation of "facts" alone will not yield policy conclusions. Let me sketch an economic picture of Indiana at the present, and then present two possible futures for Indiana.

First, the present. More Hoosiers are working than in the past, particularly women. Some hold onto manufacturing jobs; this work, while remunerative, is plagued by sporadic layoffs and shutdowns. Firms in this sector are not "fleeing" in large numbers to greener climes; but many are shutting or scaling down operations, due frequently to the emergence of conglomerate ownership patterns. Workers displaced from manufacturing jobs are typically subsisting on unemployment or SUB checks, waiting to see whether they will be called back.

The jobs that people do find are in the residual economic sectors, those based on speculation or disposable cash. These jobs pay less than industrial jobs, so one must either work more hours or accept real income losses.

What is in store for an economy like this? One possible future would anticipate continued stagnation, with the precipitous manufacturing decline in auto/steel leading the way. In fact, U.S. Steel has informed Businessweek magazine of plans to diversify into non-steel areas; U.S. Steel's 1980 turnaround occurred precisely because it has already begun to de-emphasize steel. Others will follow this lead.

Those manufacturers that do remain will scale down employment. New capital investment in Indiana has lagged behind national growth rates in the 1970's, and will lag further. The information/cybernetics industry, which will be the centerpiece of America's economy in the late-1900's will bypass Indiana, as a prominent Indiana business professor has predicted.

Thus, Indiana's economy will become a residual backwater, resembling nothing so much as a state of neo-colonialism. Indiana will be over-populated with workers trained for industries that no longer exist, and with young people who have matured in a state which disrespects education. We may attract some new manufacturers, though at wage rates a more benevolent time would have considered extortionary. We will maintain our traditional argicultural base, though this will employ fewer and fewer workers as mechanization proceeds apace. We will survive economically by packaging, boxing, bringing to market, selling, and consuming goods made elsewhere, whether in Singapore or San Jose.

Since states don't keep track of "trade deficits" with other states, and don't face a day of reckoning with the IMF over gross imbalances, economic adjustments will come subtly in Indiana. Those who can will depart. Public services will deteriorate as revenues dry up. We will become an economy of hustlers, squeezing two or more jobs per household from the barren pickings, thus creating perpetual labor surpluses and keeping wages low.

Indiana's southern half will resemble Appalachia; its northern industrial belt will decline in population and significance, speckled with rusting, dinosauric plants. People will survive, as they always do, proud of their identity and place; but there will be no prosperity.

This prospect is not inevitable, though our inaction may make it so. Indiana might have a different future, one in which we participate fully in the technological revolution building in our land. In this future, the sons and daughters of plant workers might become entrepreneurs exploring new applications of industrial technologies. In this future, our state will encourage the initiative of the young and the bold, pollinating economic creativity as a matter of policy.

We will not, however, reach this alternative future by mistake. The State of Indiana and its government(s) must make "good policy", to borrow the lawyers' phrase, in three areas: (1) we must be willing to consider economic policy questions with the seriousness they deserve; (2) we must be clear about the type of firm(s) whose growth we are encouraging; (3) we must be clear about the areas of economic activity in which we want to encourage growth. Let me elaborate on these points.

*Economic policy*

"Economic development" has now become the whipping boy of campaign rhetoric, much like the promise of "prosperity" in a less technological time. Our new crop of political leadership, at the state and national levels, has embraced this phrase. The promise of fidelity accompanying this embrace should not be confused with a wedding band. One President was just shown the door by the electorate, due in large measure to his inability to show leadership in beating economic stagflation. Our new President is struggling to dissipate the grey area between the politics of the supply side and the economics of the saved. His proposals are in trouble, however, Fortune magazine has complained that the "10–5–3" accelerated depreciation approach will "distort investment returns" and not help the capital investment problem notably—while Businessweek has pointed out the internal contradictions in Reaganomics' supply side estimates with solemn consternation.

Much the same gap between politics and policy exists at the state level. The Administration has come forth with a $7.85 million economic development package, while making short shrift of the rest of its $11 billion budget. On the one hand, the new administration seems to be adopting the same "Waiting for the Potomac" strategy that worked so well for former Governor Bowen. A strong case can be made that the steady influx of federal grants into Indiana's localities and state agencies during the Bowen tenure made his policies of tax cuts and programmatic passivity tenable. In fact, between federal grants and a favorable inflationary tax wind, Indiana was able through the 1970's to count on its economy as a constant. This policy will not prove felicitous in the 1980's, now that the inflationary wind has turned ill and federal grants are shrivelling daily.

Those who campaigned on a strong state economy and "keeping a good thing going" look incongruous in their silence as Mr. Stockman noisily sharpens his knife.

On the other hand, the Orr administration's economic development package looks suspiciously like a combination of "smokestack chasing" and "picking winners", as the common parlance has it. Major employers in the state and outside it will be enticed with various combinations of tax concessions and training programs to stay here or move here. With apologies to the intentions of those involved, this foray into "big casino" economic development will prove of little benefit. First, our dollar commitment must be compared with that of other states—California, to cite one example, plans to spend $20 million to keep its micro-processing industry home. Second, studies have shown that these types of marginal inducements don't work.

An overview of business location decision studies by the National Council for Urban Economic Development released in 1980 concluded that "there is no evidence that tax concessions have had any significant effect on local (business) growth. State and local taxes are relatively unimportant as location determinants (and are not) a major business cost." Dr. Birch of MIT was far blunter, writing that "it makes little sense to attempt to influence firms to move". A study in the Indiana Business Review found that even right-to-work laws don't significantly affect rates of business growth.

*Targeting firms*

Given that the state must include economic policy among its priorities, what kinds of firms should Indiana pursue? The Birch/MIT studies shed some light here. Dr. Birch has found that small firms generate 66 percent of all new jobs; and of the job-generating firm, Birch writes, "(It) tends to be small. It tends to be dynamic (or unstable, depending on your viewpoint)—the kind of firm that banks feel very uncomfortable about. It tends to be young. In short, the firms that can and do generate the most jobs are the ones most difficult to reach through conventional policy initiatives."

Another finding of these studies is that while corporate "flight" occurs infrequently, there is a great deal of "interregional control", even in the trade sector, and "the great majority of jobs generated in the South are controlled in the Northeast and North Central parts of the country".

Both these findings suggest that state government must establish policies on the channeling of investment. Risk capital must be available to risk-takers, perhaps with state government playing a brokerage/insurance role. In terms of corporate conglomerates, the question of corporate/government relationships should be reopened, with government understanding on the one side exchanged for corporate responsibility on the other.

*A focused target*

Besides considering the specific needs of firmtypes, Indiana must focus on some specific areas in which development initiatives will be fruitful. My own suggestion here is that Indiana key in on the technological applications of the information/cybernetics revolution. Futurists and economists are agreed that the way to the future is through the "fiche" and "chip", not through the grill of a Chevrolet V–8. Our state, particularly Purdue University, is now producing many competent technology graduates; but we are not retaining them—e.g., 75 percent of Purdue's engineering graduates find jobs elsewhere.

Indiana must forge strong research and development linkages between the government, university, and private sectors, as a recent Science article suggested.

The State of Indiana must specifically play two roles in this forging process. First, it must adequately fund its universities and schools rewarding academic initiative. We must face head-on the remarks of Dr. Lewis Branscomb, chief scientist of IBM, to Congress last month that "We do not have enough faculty to provide engineers trained for advanced research and technology activities, nor is there adequate equipment in the universities to give these engineers a modern training."

Second, the state must provide the initiative for basic research ventures, jointly sponsored by universities and private firms, aimed at developing generic insights in areas with broad applications potential. As an example, Purdue University could be the site for broad-ranging research on agricultural/technological applications of cybernetic systems advances. Environmentalists at Indiana University might investigate the meaning of these advances for the task of nurturing the environment.

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Far-sighted programs of this type might encourage our best and brightest to stay in Indiana, and try out their revolutionary ideas here, not in San Luis Obispo. We might consider the example of Massachusetts, whose textile mills and shoe factories are dead, but which has built a prosperous state rich in resources and learning on new industries, leaving the shells of dead factories to the wreckers' ball or to historic preservationists whose income, fortunately, comes from more modern pursuits.

Representative HAMILTON. One point you both referred to which I'd like to start with. Mr. Mahern mentioned the fact that State and local tax incentives might not be important and you cited a recent study with regard to that in attracting business and economic development. Do you put that forward as a conviction on your part, and do you disagree with that, Mr. Mutz? You propose a number of specific things that you think Indiana ought to do. How much should we be concerned about tax incentives at the State level and Federal level, too, in attracting industry? How important a matter is that?

Mr. MAHERN. Well, just to begin that, we have currently in Indiana a situation that we have the lowest State and local taxes in the country expressed in terms of personal income. It's—the State and local taxes in Indiana constitute about 9.7 percent of personal income in Indiana, and, yet, last year we were second only to Michigan in unemployment. If low taxes in Indiana have not drawn the kind of economic development that we need, I can't believe that low taxes and poor services will draw that economic development, and the level of taxation in Indiana right now seriously jeopardizes the ability of State and local government to deliver the basic services that government must provide.

Representative HAMILTON. Lieutenant Governor, you might like to comment on that.

Mr. MUTZ. Well, I think it's important to differentiate between the Federal tax system and its effect on investment decisions, which is one thing. I think there is little question that such things as changing depreciation and things of that kind will, in fact, encourage additional investment by business and industry and the tools that we've put in workers' hands, and, productivity, in the final analysis, comes from two basic sources. One is the quality of the training the worker has in his approach to the job, and the second one is the high technology level or the tool itself that he works with, both those things contribute to productivity, and, so, I don't think there is any question that liberalized depreciation, 10–5–3 or whatever program you finally end up with will have a great deal to do with whether or not we are able to encourage the movement of funds into business and industry, particularly those older industries. Now, one of the problems we face in Indiana is if you're a big national company and you have operations in 13 States, they are going to have enough capital to invest in all 13. They're going to pick and choose, and that's when, I think, our favorable tax climate in Indiana for corporations will be helpful to us because they have to make some decisions among a number of antiquated areas; that is, where the machine tools need to be replaced.

Let's talk about incentives as far as State and local taxes are concerned. In that particular area the evidence in the research area; that is, in the academic area, is very unclear as to whether those incentives have, in the final analysis, made any difference at all. All I can tell you is this, that in recent competitive situations where we in Indiana have been involved with other States competing directly for a specific investor, and I can cite one that took place in your area, in Columbus, Ind., where the Clotz Co. from West Germany decided to locate in Columbus rather than Danville, Ill. In that particular case the company that was involved had each State prepare a proposal in combination with the local unit of government, the local city or county, and they compared item by item each of the costs that they expected to endure there. Those costs involved workmen's compensation, unemployment compensation costs, tax abatement and finally what are you going to do for us to get us to locate here, and in Illinois they had certain proposals concerning the acquisition of the site and certain proposals involving training of the new people that would be employed in that plant.

Our goal in Indiana is not to outbid people for employment like this, but rather to make sure that we're about equal, because if we're about equal with the States against which we compete, then our natural advantages including the overall tax climate will win in that particular situation. However, I would have to agree that in all things balance is important, I will put it that way, in terms of how people view the new site, and in the case of the recent example that I'm citing here, the quality of life characteristics of Columbus, Ind., were obviously more desirable than the quality of life characteristics of the competition and those quality of life things have to do with public schools, cultural activities, and a whole variety of things you can't put your finger on, and, so, it's a combination of these things, and I suppose that's what we always work for in government is to find the right balance between what things should government provide and how low a tax burden or high a tax burden is appropriate and we constantly are seeking to find that balance, and in the case of Indiana we have some very natural advantages going for us, and if we can continue to produce a balance that is desirable, then if we combine it with some of these incentive programs that we have not used at all in the past, and I recognize that we're embarking on a whole new course when we ask for these 11 bills and all these other things that the legislature is working with, but it's my conviction we have to have those things just to be competitive going in. Once we get to the final decision process we usually look good in terms of the industrial prospect.

Representative HAMILTON. There are a lot of questions to be asked of you gentlemen. I want to turn to two of my House colleagues here today to see if they have a comment or question. Congressman Sharp.

## STATEMENT OF HON. PHILIP R. SHARP, A U.S. REPRESENTATIVE IN CONGRESS FROM THE 10TH CONGRESSIONAL DISTRICT OF THE STATE OF INDIANA

Representative SHARP. I want to take this opportunity to underscore two significant issues affecting the economy of Indiana and the Nation.

First, it is critical that we work together in Indiana to build the strength of the automobile industry. Many communities in Indiana are dependent not only on auto and parts manufacturing, but also on supplier industries, such as glass, rubber, steel, and aluminum.

The auto industry lost $4 billion last year at a time when it is beginning to invest roughly $70 billion over the next 10 years to produce more competitive cars. About 200,000 auto industry workers are without jobs nationally, and the importance to Indiana's economy cannot be overemphasized.

The U.S. auto industry must become more competitive. Part of the solution must be much greater cooperation among business, labor, and Government. For our part, the Government must address the problems of regulation, stimulating more investment in new plants, equipment, and machinery as well as temporarily slowing the flood of imported automobiles into our country. None of these solutions will in themselves solve the problem. All of us with a stake in the health of the industry must work together, and better then we have in the past. The second issue I must mention is the critical problem of energy. It is important that Indiana and the Federal Government continue to develop contingency plans for handling a disruption of our oil supplies from abroad. In the present oil situation, we too easily can be lulled into the belief that the energy problem is unimportant. No one knows when revolution, warfare, or political intrigue could cut off supplies to the United States and to our allies. Many experts think we can expect such problems at some point during the next decade.

As we all would guess, a cutoff of supplies from the Persian Gulf and the resulting increase in prices for petroleum products would have staggering implications for the American economy. A yearlong shortfall of only one-third of our oil imports in 1984 would cause an approximate $226 billion loss in gross national product and would increase inflation by 15 percent. Unemployment would rise 18 percent with the greatest impact on those industries which are heavy energy users.

As severe as the impact would be on the Nation as a whole, a State like Indiana would bear a disproportionate share of economic consequences because its economy relies so heavily on farming, automobile manufacturing, and steel production, activities which are particularly sensitive to energy prices. Even today, with only a moderate national recession spurred by relatively modest increases in oil prices, Indiana's statewide employment fell during the last year by 51,800 jobs, 20,600 of which were in the energy sensitive manufacturing sector. In the event of a severe shortfall of petroleum, the effects on jobs in Indiana would be much greater.

The Fossil and Synthetic Fuels Subcommittee, which I chair, is dealing with two aspects of the crisis problem: (a) expediting stockpiling of oil in the Strategic Petroleum Reserve and, (b) providing emergency authorities the President should have when the present law expires in September of this year.

Thank you, Mr. Chairman. I appreciate the witnesses' prepared statements as well. I guess I did have a couple concerns about Federal policy that you were alluding to, Mr. Mutz. One is, obviously, the concern we all share of reducing inflation and the interest rate, and I wonder what relationship you see the Federal deficit having to our ability to reduce inflation and to——

Mr. MUTZ. Well, of course, the problem of inflation is a complex one. It's not solely dependent on the question as to whether or not the Federal Government balances the budget or not. I think that's a dominant factor, however. Along with that I think goes the question of the over-reliance on regulatory activities at the Federal level which, I think, also contributes to inflation. I think without any question those two factors, when taken together, need to be part of the focus the Federal Government follows in the next several years. If that occurs, then I think along with a monetary policy that continues to constrain the growth of money supplies, then I think you have a program that given enough time will work, inflation actually will be controlled, and over a period of time—and I would guess we're talking about a 4- to 6-year period before you really see the meaningful results of what we're talking about here. There are no quick fixes, I don't believe, in this situation.

Representative SHARP. Do you see reducing the deficit, though, as of major importance as one of the basic signals to the American economy that we're serious about this business?

Mr. MUTZ. Absolutely, yes, I think that's exactly right.

Representative SHARP. Would you see that as more serious than borrowing—I mean do you see reducing that deficit as more serious than borrowing extensively to have additional tax cuts for example?

Mr. MUTZ. Well, the question and the point I wanted to make here—maybe I didn't make it well enough, and that is if you believe in supply side economics, if you buy the theory, then you've got to jump in with both feet, and the thing I'm concerned about in the Federal Congress at the present time is that when compromises are wrought—and that's what we always have in this system—you end up with a little bit of this and a little bit of that and the result is that the supply side theory is not given a chance to really work.

Representative SHARP. So, you would forgo your concern about the deficit for next year in order to get a larger tax cut, is that what you're suggesting?

Mr. MUTZ. Yes. I'm suggesting to you that we're not looking at a 1-year program here. We're looking at a program—in fact, the President's estimates are all based on what's going to happen in 1986. That's a 6-year program he's talking about.

Now, if you think in those terms, then that means that if you really think supply side economics has a chance, then I think you have to do both things, recognizing that in the early stages of the program the increased tax cuts may represent a bigger deficit than you might like to have.

Representative SHARP. I think some of the concern that some of us have with the President's proposal is that certainly for next year the deficit is envisioned to be possibly equal to and by some estimates greater than the deficit we will see this past year under the previous Carter administration's economics, and that if it is of such significance as so many people, as yourself and others, have constantly told us, we wonder whether or not we're contributing to really reducing the expectations in this society that inflation is just an endless thing and the Government really will never get control of it.

Mr. MUTZ. Yes, but the thing we have to recover from in this country, all these things called inflation and unemployment rates, are statistical things that really refer to productivity, and the No. 1 problem in this country today is that our rate of productivity growth has, in fact, declined to the point where it's actually decreasing year-by-year, so it seems to me that the real question, then, is how can we once again regain a productivity growth. Now, I think the answer there lies in the things I've already mentioned, which is encouraging investments and improving the tools that we put in workers' hands, but in the final analysis it's the unleashing of the creativity instinct and creativity potential of human beings. The thing that has produced the kind of standard of living that we all talk about in the United States over the years is probably those things more than anything else, certainly more than government policy, and it seems to me that a reawakening of creativity, personal drive, enthusiasm, all those sorts of things are part and parcel to this program. As I say, we can't expect it within a 1- or 2-year period of time to turn the total spending program around. At least that's my personal philosophy.

Representative SHARP. Well, I think some of us probably share very much the need to try to dramatically improve the productivity situation which is not going to happen overnight in this country, which is a whole range of things. I think all of us on the panel have supported the 10-5-3 on depreciation schedule and a variety of tax incentives as well as changes in regulatory policy to help do that. I guess what I have continuing concern about is it doesn't matter whether it's Democrats or Republicans in the White House, there is a new excuse each year and there is a new strategy and a new plan for it is in 3 years we'll have a balanced budget, and I've bought those excuses at times. Democrats and Republicans have bought those excuses and yet there is this constant hammering away by all of us in government and all the people outside of government that until you take seriously reducing that deficit you're just kidding the folks that you're really doing very much in inflation. I personally do not believe the deficit is a beat-all and end-all, as you say it's not. I also happen to think it's a part of it and I think that's one of the issues. I think some of us are struggling as to how much do we place the bet again this year that the deficit isn't the worst significant thing this year, we'll hope that somehow it'll all work out in the wash 2 years or 3 years or 4 years from now.

Mr. MUTZ. I'm the first to admit that supply side economics, if you embrace it, is an act of faith, no question about that, and the question, as far as I'm concerned, is whether or not we continue as Americans to have faith in this system that has served us so well in the past.

Representative SHARP. Well, I'm not sure the system has been in the past so-called supply side economics, but I agree that we're going to have to take some chances and some risks. I guess one of my concerns is whether or not we're really talking about supply side economics when we talk about Kemp-Roth. Kemp-Roth is across the board, you know, personal income tax rate cuts. I realize the President is coupling this with things that many of us support like 10-5-3, but I guess what some of us wonder is whether we get more bang for the buck, we get more supply side economics, more stimulus to savings investment if we deal with other tax provisions rather than simply flatrate reductions, across the board, but that's something we're debating and will be debating in Congress.

Mr. MAHERN. It seems to me, Congressman, that one of the questions that one might want to ask himself: Why is it people are not out investing or why is it that this growth is not occurring, is it because people don't want to pay, is it because of the tax burden, or is it because it costs them money, and I think the argument could be made that probably most of these people are not expanding because it costs them money, and, so, I think from that standpoint probably doing something about inflation and doing something about the deficit, that may be more important than tinkering with the tax structure; on the other hand, if you're going to tinker with the tax structure, do you want to have incentives for businesses and industry to expand and develop new products and improve productivity, I think that might be wise, or do you want to put a whole bunch of moneys into the hands of individuals so they can go out and buy more Sonys and Datsuns. I think you'd be—you would be much better advised to put that money in industry so that they can develop the kind of products that can compete with Sony and Datsun.

Representative SHARP. I take it you'd recommend buy American on American automobiles.

Representative HAMILTON. Gentlemen, our time is getting a little bit limited. Let's hear from Congressman Evans.

## STATEMENT OF HON. DAVID W. EVANS, A U.S. REPRESENTATIVE IN CONGRESS FROM THE SIXTH CONGRESSIONAL DISTRICT OF THE STATE OF INDIANA

Representative EVANS. Thank you, Mr. Chairman. I share many of the concerns expressed by Congressman Sharp, also and I'm concerned about the $50 or $60 billion deficit over the next 5 or 6 years at least until we reach a point down the road where the supply side economics theoretically could have made an impact. I am also concerned over the President's proposed budget plans in terms of what I see, at least, as a bias in favor of large business. I think that you, Mr. Mutz, and the State of Indiana are to be congratulated for this package of bills that you spoke of, and you mentioned the percentage of jobs and perhaps a number of jobs that were going to be created in the coming years in the area of small business here in the State. I'm not sure what the particular figure was. What was that amount, do you happen to recollect?

Mr. MUTZ. Well, what I said was that 61 percent of all new job creation is likely to be employers with 25 or fewer employees, which are very small.

Representative EVANS. So, we're talking about approximately two out of every three jobs in the coming years being in the area of small business, but yet the President is proposing—and I just throw this out as a concern that I have and either of you or both of you may want to comment on it—the President is proposing to slash rather significantly the budgets of both SBA and to terminate the Economic Development Administration. I'm no great fan of the EDA, and I think there is very good evidence that they have helped to move jobs from the Frost Belt area to the Sun Belt area rather than creating new jobs, but in the area of SBA budget reductions, the President is recommending a 27-percent reduction in the SBA business loan and investment funding that will cost approximately 45,000 jobs.

He's also recommending the elimination of interest subsidies on direct loans to handicapped individuals to create their own or start up their own businesses. He's recommending an increase of over 50 percent in interest rates on SBA loans, specifically to the socially and economically disadvantaged, 75 percent in the SBA program for management and technical assistance to women in business, 52 percent cut in physical injury, natural disaster loans in this current fiscal year, the remainder of the current fiscal year, 1981, and so I think given these kinds of cutbacks and the tight money policy that is being pursued by the administration, I'm very concerned that this type of a combination will result in the failure of many small businesses that we currently have or will prevent the creation and establishment of many new small businesses in the future, and I think that the tight money policy when combined with business tax cuts that at this point are solely, in my opinion, directed toward the larger businesses, will lead to what I would term to be an inadequate money supply to meet the demand and as a result we'll have even higher interest rates in the future and even further credit crunch, so, you know, I mean, these are some of the concerns I have when we're talking about economics and helping small businesses here in Indiana and how that relates to the proposed budget for this coming fiscal year.

Mr. MUTZ. So what's your question?

Representative EVANS. That's the concern I have, and I guess I'm saying, you know, how do you think Indiana's program that you mentioned trying to attract more businesses here to the State, smaller technologically advanced businesses, how is that program a realistic program in view of the cutbacks overall, nationwide, to small businesses?

Mr. MUTZ. Well, I believe we have to start with the fact that the programs of economic development, with some exceptions, largely speaking, at the Federal level, have not helped the Middle West; as a matter of fact, I think the studies that I've been reviewing in the last couple of months indicate that if, in fact, Federal policy has, in a very substantial way, encouraged the flight of industry and investment to the so-called Sun Belt area of the United States, so the continuation of these programs in and of themselves, whether they are fully funded or 75 percent funded will not substantially help the State of Indiana. I would suggest that in part Indiana's response to what is going to be a substantial reduction on a whole variety of programs is to do some of these things for ourselves. That's the reason that House bill 1284 is one that Governor Orr and I and a number of our friends on the other side of the aisle—the Democratic party has been just as supportive of that program as has the Republican party. We recognize in this belt tightening that's taking place here that states must assume some responsibilities for themselves, and that's what this program is designed to do, is to channel investment capital which may go for taxes and bonds, for example, instead iuto the kind of program we're talking about here. There is just so much capital available in the pool. We want to channel it into those areas we think will be beneficial to the State of Indiana. The State must be willing to take some initiatives in this area.

Finally, I guess I'd say that in the long run the answer for small business still lies in the private area, the private sector. The kinds of economic programs that have been suggested by the President in terms of tax cuts, including the tax cuts for the small business, big business as well, are ones that are aimed at putting more discretionary decisions in the hands of the taxpayers rather than in the hands of the government people themselves, and that is a basic policy decision, whether or not the people themselves will make decisions as to how those dollars are spent, which, in the long run, benefits the total economy, small and large business, or whether they don't, and I guess it's our continuing conviction at this point that more discretionary income in the hands of middle-income America is a very desirable thing. You can argue about that, I realize, but I think in the long run we feel that while there may be cutbacks in SBA guarantees in the short period of time that follows this particular program that you're involved in, that the long run effect, let's say 5 to 6 years, will help Indiana and will help the small firm that we're trying to create here. As I say, I think it's a combination of unleashing the private sector's potential and getting States to assume some responsibility.

Representative Evans. Thank you, Mr. Chairman.

Representative HAMILTON. Gentlemen, I think our time is running out for your panel. You've both been very helpful to us here. They're many, many questions we have. May I just make one comment to you. Both of you have emphasized the State's responsibility. One of the things that concerns all of us in the Congress at this point is that if, in fact, we are going to move in the direction that President Reagan has suggested, which is a move toward block grant approaches to various kinds of Federal assistance with a reduction in the total amount of money that will go to the States, it does mean that the States will have to take on a very heavy burden, administrative burden, in allocating those funds and developing standards by which the funds will be allocated. I take it from both of you today that you're quite prepared to accept that responsibility, but we in the Congress, I think, will feel better about it when we see a clear action in the states to accept that kind of responsibility. Under the program we have before us we're to make this change by October 1.

The Indiana Legislature now is getting ready to adjourn in a few days. We're going to be asked to turn over huge sums of Federal money to states with no programs in place, no standards in place to deal with that money. Now, assuming that the Congress wants to approve the the block grant approach, and there are many good arguments for it, the transition period here moving from categorical grant to block grant approaches is very important. I don't expect you to comment on this. I just wanted to make the statement so that you're conscious of this and you're aware of it. You've got a bigger responsibility ahead of you if we move in this direction. You've both given us a lot of good comments and good thoughts, so we appreciate your testimony very much. We're going to hear from some private sector people now, and we want to thank you for your appearance this morning very much.

Mr. Mutz. Thank you. We're glad to be here.

Representative HAMILTON. All right, our next panel will be the business panel. Tom Binford is here, I believe, from the Indiana National Bank. Fred McCarthy is here from the Indiana Manufacturers

Association and John W. Walls from the Chamber of Commerce, I believe, is here, likewise. Good morning. We're very glad to have you here this morning. We appreciate you coming before the panel and we look forward to your comments. Now, I think what we'd like to do is for each of you, if you would, to comment on the Indiana economy, its strengths and its weaknessess and what you think ought to be done and then we'll open it up for a few minutes discussion. Let me begin with you, Mr. Binford, if I may. We'll go from left to right. You'll be followed by Mr. McCarthy and then Mr. Walls. We're glad to have each one of you here.

## STATEMENT OF THOMAS W. BINFORD, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, INDIANA NATIONAL CORP., INDIANAPOLIS, IND.

Mr. BINFORD. I have submitted a prepared statement on the state of Indiana's economy and a few suggestions, so I don't want to read it to you. I'm sure you or your aides can read it, but let me just kind of review it for you and I think—I just caught a bit of the previous panel, but I'm sure some of these statistics and facts are known to you and have been reported to you already, but I think one of the keys to Indiana's weaknesses and strengths is the structural composition of its economy. Slightly more than 40 percent of the salaries and wages in the State are generated by manufacturing industries. A comparable figure for the United States is about 26 percent. Even more telling insofar as reactions to effects of recessions is concerned is the dominance of durable manufacturing. Durable goods manufacturing in the total U.S. economy accounts approximately for 17 percent of personal income, but in Indiana, the figure is nearly double—about 33 percent. During recessions, this industry is hit harder on the demand side than either nondurable manufacturing or other industry classifications.

Our sensitivity to the business cycle has been complicated by the energy situation, as well, and the last two recessions have demonstrated this in 1975 and 1976 and 1980. The auto industry, particularly, has been adversely affected as well as other capital goods or hard goods manufacturing.

The second factor of key importance to the State in both the 1960's and the 1970's has been the extensive migration from the older industrialized regions of the Nation, which was discussed earlier. Indiana, just to bring some statistics into it, has dropped from the 11th to the 12th most populous State, and our growth rate was less than half of that of the Nation as a whole—5.4 percent compared to 11 percent. You combine these two factors—an economy mix particularly sensitive to business cycles and the energy situation, geographical location, and the section of the country experiencing outward migration and you have such things happening as a drop in the proportion of national personal income from 2.5 percent to 2.25 in 1980, translating into a difference of nearly $10 billion in today's $2 trillion economy; a drop of proportions from national total employment from 2.6 percent in 1960 to 2.3 percent in 1980, that was 2.6 in 1970, also, so there is a deterioration in the proportion of the total national income generated in the State of Indiana, a reflection of not only its dependence on the auto industry, heavy concentration of manufacturing industry, durable industry, in particular.

In addition, capital erosion over the postwar decades has been allowed to occur as political and economic priorities have been directed toward consumption at the expense of savings and investment. The result of the 1980 political elections would seem to have indicated a public displeasure with the current inflationary trend and implied their dissatisfaction with past economic policies. The new administration and a growing portion of Members of Congress have indicated a recognition of the need for altering economic priorities to reemphasize the need for encouraging capital and savings growth. We think this would be good for the State of Indiana. Encouraging savings and investment for improving its own capital structure would be a healthy move for the economy of Indiana. Auto industry's problems are more deepseated than the mere cyclical fluctuations, and I'm not sure that we're going to see any immediate or even near-term improvement as far as employment or the State of Indiana's economy from a comeback of the auto industry. It'll come back, but I don't think it's going to be a quick turnaround.

However, before the panic button is pushed, we should not discount and overlook the State's economic strengths and basic vitality. Several cities in the State have shown unusual resiliency in the past to major manufacturing reductions and shutdowns, South Bend, Terre Haute, Evansville, and Richmond are cases in point. In those instances, an inventory and analysis of fundamental strengths were taken and, through cooperative action of citizens, business and government, steps were adopted that in time reestablished the communities' economic viability and vitality.

Part of the underlying strength has been derived from the overall State's conservative fiscal policies maintained consistently over the years, and I think consistency may be as important as the policies. Just as aside from the document, that as a businessman I know if you know what to expect you'll take risks, even if what you expect isn't what you want, but if you don't know what to expect and it fluctuates—I think the State of Michigan is an excellent example of a fluctuating economic policy—it's difficult for a businessman to live. There are other States with high taxes that businesses do live with, and I would like to say up front I do not think the tax structure of Indiana or—it needs to be improved to help business. I think there are other things that need to be improved more than that.

I think we have a good tax climate, basically, although there are arguments as to the inventory tax in the State of Indiana because that is helpful to some industries and not helpful to others, but basically I think we have a pretty good tax climate, so, in the periods of this time I think the State of Indiana as well as the cities that represent the industrial centers need to take an inventory and need to bootstrap, and I think they are capable of bootstrapping themselves out of temporary economic declines, particularly those that are caused by businesses moving out of the area, and this—I would like at this point to support what I thought I heard Lt. Gov. John Mutz say, and if he did I agree with him and if he didn't I'll say it myself.

I think the Federal policies have encouraged the exodus of business to the—or the creation of business in the Sun Belt. It's very, very similar to the FHA with their redlining of the central city, encouraging the construction of the suburbs, very much the same thing. What the Federal Government policies have done is attempted to encourage a trend, have jumped on a bandwagon and encouraged the trend whether the trend was good or the trend was poor or what the consequences of the trend ended up being. If we're going to plan, and I think we should plan more sensibly than occurred during the FHA period, and I would still say there is some of that going on, but it's not to the extent that it was in the 1950's and 1960's, and I think that occurred with our economic development. The programs themselves I am not going to criticize just on the face of it, but I am going to criticize the way they've been regulated, the way they've been defined, the way they've been implemented in some cases.

Summarizing the positive factors in the State of Indiana, I think part of it is the conservative government and fiscal policies and the consistency thereof and our State, municipal governments have followed the same pattern. They generally receive high ratings in financial markets. Our geographic location and transportation system are excellent and I think this is one of our major strengths. Our location within the United States, our network of roads and our network of railroads, the population that's around the center of Indianapolis, I'm talking about the other States that surround us as well. It's a good market and it's a good geographic location. We have a strong agriculture base. We consistently rank among the top 10 States in farm sales, and I think in technology, food technology and research development, byproducts of farm produce, that is a strong element and a great strength in our State. Our research and education facilities I think are above average, although I would say underutilized. I know that you're more interested—you may know everything that I said.

I think what you're more interested in is what do we do to face the challenges, economic challenges of the future, and this is difficult to lay out a blueprint as to what you do. There are some things that are currently popular or currently on the front of the stove which we talk about, but I think there are other more basic things that we don't talk enough about. Maybe there isn't anything Congress should do about it, but I will probably, in my opinion, do more for the creation of a viable economy than maybe some of the tinkering tax laws, depreciation, so on, that we think are helpful and, indeed, they may be helpful, but they won't help a sick industry, they won't, in my opinion; they won't create something that can't live without it. It can help improve a situation, but it can't create a situation, can't create a viable industry simply by acts of Congress, but those things that I think do need to be reinforced and which I feel we're behind in Indiana; one, programs of training, vocational training both within the high schools and postsecondary I don't think are anywhere near the stage of development that it should be, and I am one—and maybe in the country the only businessman in the country—who doesn't think that the CETA program is necessarily a failure in concept.

It's not been adequate and not well managed and struggled for a number of years, but I have not given up on it and I don't think we should. I think it's probably one of the more important programs which I see no reason why the Democrats in Congress can't embrace and I see no reason why a Reaganite Republican can't embrace. In essence, it helps make the system work, and something like it, whether it's called CETA—no matter what it's called—we need to spend more money on training our young people, particularly, and our disadvantaged, unemployed, or structurally unemployed. We need to face that issue, need to face it as capitalists as well as citizens and human beings. Establishment or encouragement of venture capital pools, I think this has been badly neglected in the State of Indiana. Private industry has neglected it. I'm not criticizing the State. I hope that we do not abandon the SBIC concept. It's really just coming into its own. SBIC's play a very important role in creating the employment increases that were mentioned to you earlier, which come from smaller industries and growing industries.

Two out of three new jobs are created by smaller businesses and the SBIC is designed to help supplement the equity capital and it's not borrowed money that's needed. You can't carry the interest. It's equity, and we need in the private sector to take more risks as a group, with venture capital pools, but it can be encouraged, also, by the Federal Government and by the State government. We have some legislation here in the State now. I would urge you not to let the SBIC slip away. It may be more important in the next 5 years than it has been in the last 25 years, I think, that it's been in existence.

Utilization of industrial revenue bonds I think should be continued. I think they've been misused. My own recommendation would be that they be restricted to certain types of investments that are productive or increase productivity, either in service or manufacturing enterprises; that they not be used for purposes of entertainment, recreation, or, most particularly, competitive relocation incentives. They have been used like this all over this country to the detriment of Indiana, but we've used them to the detriment of other people, too. We've all got them and what we're really doing is just running industry back and forth. Somebody has to examine it from the point of view of a banker, if I may use that word, as to the ramifications of the investment, the type of investment it is, but I don't think we should give up on industrial revenue bonds. I think they've been a very important ingredient in the growth of the economy in the last few years.

I come from a highly regulated industry, but I feel that interstate banking, for example, is a detriment to the United States and Indiana. That's my personal feeling about it, but I think most of the regulations in the banking industry are not counterproductive, but in many other industries they are, and I think we have kind of become—we've let the regulators take over regulation instead of our representatives taking over the regulations. I think we've permitted regulators to take the few sentences or few sections of a law and twist and turn them around to be counterproductive, maybe not to the purpose they see that the law was written for, but beyond commonsense, and I think we have gone beyond commonsense to the point where we have handicapped our industries at added costs for the consumer. We shouldn't abandon it.

Again, I don't believe the programs that Congress has put in, if I can summarize, in the last 10 years have been bad programs, but I think they have been badly implemented, I think they need to be refined and some of them abandoned, but we do have a Congress of the United States, we do have Federal regulation. I accept regulation, I accept Federal law, but I think I'd set a higher standard for it than I've seen in the past 10 years.

Thank you, very much.

Representative HAMILTON. Very thoughtful statement Mr. Binford. We thank you.

[The prepared statement of Mr. Binford follows:]

PREPARED STATEMENT OF THOMAS W. BINFORD

*State of Indiana's Economy*

Key to Indiana's weaknesses and strengths is the structural composition of its economy. Slightly more than 40 percent of the salaries and wages in the state are generated by/in manufacturing industries. A comparable figure for the U.S. is about 26 percent. Even more telling insofar as reactions to effects of recession is concerned, is the dominance of durable-manufacturing in the State. Durable-goods manufacturing in the total U.S. economy accounts approximately for 17 percent of personal income, but in Indiana the figure is nearly double—about 33 percent. During recessions, this industry is hit harder on the demand side than either nondurable manufacturing or other industry classifications.

Indiana durables orientation and business-cycle sensitivity has been complicated by the energy situation and its concomitant impact on the U.S. auto industry. During the last two recessions (1975–76 and 1980) auto industry has been particularly adversely affected; and with the importance of autos in Indiana, so has the State. Indiana recovery from both recessions was somewhat slower than prior post-war recovery performances.

A second factor of key importance to the State in both the 1960's and the 1970's has been the extensive migration from the older, industrialized regions of the Nation—Northeast and North Central (which includes the Midwest and Indiana)—to the South and West regions. Attracted by such factors as lower energy costs, more favorable tax structures, and less unionized labor forces, companies have chosen to establish, expand or even relocate to the "Sunbelt" states, and people have followed. The recently released 1980 Census numbers indicated that: (1) Indiana had dropped from 11th most populous state to 12th; (2) Indiana's growth rate from 1970 to 1980 was less than half that of the Nation as a whole, 5.4 percent vs. 11.2 percent and (3) 35 other states had experienced faster population growth rates than Indiana during the decade.

Combine these two factors—an economy mix particularly sensitive to business cycles and the energy situation, and a geographical location in a section of the country experiencing population and industrial migration—and you have a state reflecting patterns like:

A drop in its proportion of National personal income from 2.5 percent in much of the 1960's to 2.225 percent in 1980, translating into a difference of nearly $10 billion in today's $2 trillion economy.

A drop in its proportions of the National total employment from 2.6 percent in both 1960 and 1970 to 2.3 percent in 1980, with employment in 19 of its 24 major industries experiencing similar declines in their percent-of-National numbers.

The persistent deterioration in the proportion of total National income generated in the State of Indiana is a reflection of not only its dependence on the auto industry, but also the heavy concentration of manufacturing industry generally and durables industry in particular. In addition capital erosion over the postwar decades has been allowed to occur as political and economic priorities have been directed toward consumption at the expense of savings and investment. The result of the 1980 political elections would seem to have indicated a public displeasure with the current inflationary trend and implied their dissatisfaction with past economic policies. The new Administration and a growing portion of members of Congress have indicated a recognition of the need for altering economic priorities to re-emphasize the need for encouraging capital and savings growth. Should that redirection of economic emphasis be implemented with the current Administration and Congress, the ultimate prospects bode well for the State of Indiana. Not only would the State's industry be benefitted by implementing legislation for encouraging savings and investment for improving its own capital structure, but the increased demand for all capital goods and materials would likely stimulate State industry to meet the rising demand for certain goods and materials that are produced in the State.

The auto industry's problems are more deepseated than mere cyclical fluctuations. Consequently, economic recovery, however strong in 1981, will not likely be reflected in extensive rehiring and rebuilding in the State's auto manufacturing establishments immediately or even soon. The recent cyclical recession probably has brought to a head secular structural development that has been festering in the State's economy for years.

However, before the panic button is pushed, we should not discount and overlook the State's economic strengths and basic vitality. Several cities in the State have shown unusual resiliency to major manufacturing reductions and shutdowns, South Bend, Terre Haute, Evansville and Richmond are cases in point. In those instances, an inventory and analysis of fundamental strengths were taken and, through cooperative action of citizens, business and government, steps were adopted that in time re-establish the communities' economic viability and vitality.

Part of the underlying strength has been derived from the overall State's conservative fiscal policies maintained consistently over the years. Unlike cities and communities in other states, that sector of the State's economy can be looked to as a support, not a handicap. Fortunately, the decennial census data will be timely for current economic inventory taking for both the State and the adversely impacted county areas. While we would have hoped that such planning activity would have been an ongoing exercise in the local areas, only serious threats to the areas' well-being usually prompt the ordering of priorities of time and talent.

The 1980's promise to be a new era politically and economically on a national basis—what better time would Hoosiers have for taking stock and planning their future economic priorities. Our State's economic needs may be critical, but far from insolvable.

Positive factors for Indiana's future:

1. The strength derived from the State's history of conservative government and fiscal policies. State and municipal funding issues consistently receive high ratings in the financial markets.
2. Geographic location and transportation system. Approximately one in every five Americans live in Indiana and its contiguous states. Indiana has more miles of interstate highways than any other State of comparable size, and modern ports designed to handle freight traffic on both Lake Michigan and the Ohio River, with a third port planned for the Ohio. Trunk and commuter airlines serve eleven Indiana cities, and the Indianapolis Airport houses a full customs facility, allowing direct international shipment. With this combination of population concentration and transportation facilities, the State has strong marketing and distribution potential, as evidenced by the growth of these two types of facilities particularly in Indianapolis in recent years.
3. Agriculture base. Indiana consistently ranks among the top ten states in farm sales. In recent years, other countries have increasingly become dependent upon the U.S. as a food source; and technology and research have developed new byproducts from farm produce. Both of these trends are favorable for growth in the agricultural industries already in the state and development of additional ones.
4. Research and education facilities. Purdue University's ongoing agricultural research and IU's medical research are resources for developing and encouraging new industries within the state.

Areas that need reinforcement:

1. Programs to train new workers and retrain old workers in the skills of today's and tomorrow's industries, both within the public school system and post-secondary.
2. Establishment or encouragement of the establishment of venture capital pools to help equity funding of new and expanding businesses. On the Federal level SBIC's should continue to be supported.
3. Continued utilization of Industrial Revenue Bonds, but restricted to productive service and manufacturing enterprises, not for entertainment, recreation or competitive relocation incentives.
4. Regulations, reviewed for cost effectiveness and counter-productive administrative burden.

Representative HAMILTON. Mr. McCarthy, you represent the Indiana Manufacturers Association. We're glad to have you, sir.

## STATEMENT OF FRED McCARTHY, PRESIDENT, INDIANA MANUFACTURERS ASSOCIATION, INDIANAPOLIS, IND.

Mr. McCarthy. Thank you, Mr. Chairman. I appreciate the opportunity to be here. I made a fairly reasonable guess, and it worked out, that by the time I got on the program most of the statistical type of information would have been said at least once. I think I would make a very brief statement, to some extent go toward philosophy rather than specifics of what could or could not be done.

The membership of the association is composed of about two-thirds by employers of 200 people or less, so we are basically a small business group, or at least not solely representing the giants of industry. A lot of those members have problems accepting Federal regulation and some of the things that they see are extremely unreasonable. One of the things that comes to mind most readily is the application of the Clean Air Act. You gentlemen, I think, are probably familiar with the fact that we have in Indiana a joint committee on jobs and energy composed of organized labor and business people.

I happen to be cochairman of that committee, too, and that committee is very concerned. One of the strong points of the Indiana economy ought to be its energy sources. We are concerned by the fact that we see generation plants, the construction of generation plants, at a standstill because of safety questions, because of environment questions. We don't wish to see anything dangerous built. We don't wish to see Indiana families subjected to dirty air any more than necessary, but we think particularly in light of the economy today these things certainly need to be reevaluated. It goes, I think, to a point Mr. Binford just made, that it is apparent or seems to be apparent at times that the regulator who interprets and applies the laws which you gentlemen have voted on possibly has gone farther in the interpretation than you intended or that the current conditions might warrant.

I mentioned the fact of this State joint committee. Interestingly enough I was in Washington March 30. You gentlemen may have seen this full-page ad in the Washington Post, "Organized Labor Supports Nuclear Power." We are in the same boat with them on that. I'm not quite certain what role the Government can play or should play in this area of cooperative effort between business and labor, but I personally am convinced that this is an area which needs exploration and encouragement.

The formation of capital ultimately is just as important to the man who's going to run the machine as to the man who will purchase the machine. I think both business and labor and the Government, to the extent that it can, needs to encourage education toward that concept. A tax system allowing capital formation is not a business windfall, per se. It's going to be good for other people.

A recent article in U.S. News & World Report referred to the fact that the Clean Air Act probably would be changed to allow the U.S. automotive industry to be more competitive. The reason I mention it at all here is because in line with my earlier comment, the headline on that particular article was, "What Business Will Get Next From Reagan," the implication being that a viable automotive industry is of no particular interest to the members of the United Auto Workers. Obviously I don't think that's a reasonable statement.

I'd like to piggyback, if I may, on some comments that Lieutenant Governor Mutz made.

Representative HAMILTON. Yes, indeed. Feel free to do so.

Mr. McCARTHY. I think the association members generally support the Reagan program. There is a very real problem of time concerning the enactment of the Federal programs and what can be done at the State level to react to those. I'm not quite sure how that can be handled. Budget cuts and tax cuts generally ought to, I suppose, be somewhere equal so that if you take a program away from the State government you leave tax money there and let them have the discretion as to whether or not they pick it up. There was some comment about tax rates and what they mean to industrial development in the State.

I would tend to agree with the fact that property tax rates and income tax rates generally are only partly responsible for the industrial decision as to where to locate. I do think that specifically industrial rates or business rates such as unemployment comp and workmen's comp are very important. We have a major industry being constructed in Lafayette now from Illinois, and it's my understanding that the unemployment compensation tax rate was a significant factor in that decision. We have a tremendous advantage over our surrounding industrial States in those areas, and I do think those specific business taxes do make a difference. We've been very fortunate in Indiana that the Indiana General Assembly has been very reasonable and temperate in its approach to the economic climate, and it has been that way regardless of the party in power. I happen to think that's because of their openness and willingness to listen to all of their constituents, and it's another reason I'm particularly pleased to be here with you today and to have this direct communication.

Again, to piggyback on something Mr. Binford said, the business community can learn to live with a bad tax if it is consistent. It is the inability to plan, it is the inability to know what's ahead, that makes a real problem for the business community. I heard an interesting concept at a speech just very recently in Lafayette by an economist, and I'm neither an economist nor an attorney. He raised the question of the 3-year tax program, the 3-year economic program in Washington as opposed to the 1-year program. His idea was that we have done things like this in reverse as to what we should have been doing in the last few years. The example he gave was the potential contract for the United Mine Workers. Now, I'm not picking on the mineworkers, but that's one that happens to be current. They're talking in terms of a 3-year contract and at least the one they voted on, as I recall was a 36-percent increase over the 3 years. What happens to the coal mining company if, in fact, the governmental programs do start working and you start reversing inflation? A 3-year contract for these increases is building in the inflation. Maybe it is time to adopt the reverse philosophy.

Let's go for some 1-year labor contracts and for some 2- or 3- or 4-year Government programs. The Congress should do its best to find out what the technicalities of the program are, what the philosophy of the program ought to be to turn the economic situation around, and then make a commitment to it and stick with it. Let's not go back next November or a year from now and tinker some more. Let's see if it'll work. That's the end of my statement.

Representative HAMILTON. Thank you, Mr. McCarthy. John W. Walls, president of the chamber of commerce is our next witness.

## STATEMENT OF JOHN W. WALLS, PRESIDENT OF THE INDIANA STATE CHAMBER OF COMMERCE, INDIANAPOLIS, IND.

Mr. WALLS. I have been involved in the areas related to economic development for many years and have worked with both Mr. McCarthy and Mr. Binford and hopefully many others here in Indianapolis prior to my activities with the State chamber, and I think that except for one comment or additional resource option that I I would give you, I would limit my remarks simply to this: The emotional or the psychological portion of the economy seems to me to be immensely important and the actions of the Congress and the national administration, of course, have impact on this aspect of the total picture.

In 1965, in Indianapolis, a group of people got together and decided they wanted to spark the city in terms of a development program. Frank McKinney Sr., was involved in this, as was the leadership of the community and the business sector. Mr. Binford was the chairman of the committee which looked at the social and educational aspects of the community.

At this juncture I was able to see that a program of this kind working with a city administration tended to give the perception of some success, and I think that as we move into an era in the State of Indiana which starts with a problem, starts with 65 percent of all the industries in the State being either in the no-growth or slow-growth category, over the next decade we can see that everything really has to fit together very well if the psychological, the emotional, as well as the physical aspects come about and has to bring the business and the governmental sectors into a working relationship that really works.

I'm not in total agreement with my neighbors to my side in connection with the suggestion that it doesn't make any difference what kind of tax structure you have or what the provisions are. Actually Indiana has had a fairly good climate through the years and this has not necessarily helped us. I see industries going to Michigan and if any State in the Union has a bad situation, it would be Michigan, so it isn't the tax picture completely, but I guess I would argue a bit that it is not a good thing, for a number of reasons, to have a bad tax structure simply on the basis of, "well, it may not hurt."

I do think it is the responsibility of the Congress as well as the legislature to give a continuing look to this aspect, but we've started a program at the State chamber which I hope you would feel would be a resource for you. We call it the Growth and Opportunity Council. It started out with a study of five States, and you might check with some of your colleagues in the Congress in the States of Oklahoma, Colorado, Kansas, one or two other places that we've looked at, because they have very good economic development programs.

They all relate to the cooperative efforts between whoever runs the State program such as Lieutenant Governor Mutz in Indiana, and the business sector, the private sector. Our Growth and Opportunity Council includes constituents of both of you. Gene Anderson of Columbus, Ind., is an active member as is Al Barker of Plainfield, Ind. I will give you the names and structure of this organization so that at least as a resource you can use it to the extent that we can be helpful. The program and the strategy will be based essentially on this kind of working relationship and a movement to bring about the best feelings both nationally and within our State that we are an acceptable place to do business and to market as a growth area. Jobs are obviously the major problem we have. I think the opportunities and the advantages that Indiana has in relation to our location to the generally available energy resources, to the water supply which is a pretty important ingredient, and other advantages should bring Indiana into a posture of a fairly successful development role, but the reliance on the durable goods, heavy goods, of course, needs to be switched to the degree possible.

I think with that and with the hope that everything literally that you do can be adjudged somewhat on the basis not of whether it is good for business, but whether it is good in terms of the economy and the production of jobs, we would certainly appreciate that flavor in each of the actions of both of the Houses of the National Legislature. I will give you these lists and the outline of the structure of our program and expressly hope that you will call on us if you need us.

Representative HAMILTON. Thank you very much, Mr. Walls. We appreciate that. Let me just address several specific questions to you. First of all, on industrial development bonds, how important have they been in the State of Indiana? Your comment, Mr. Binford, was that you thought they were useful, that we ought to continue them in a restrictive way ruling out certain kinds of development as a problem. Now, this is a big debate in Congress right now on industrial development bonds. Have they really been an important factor in Indiana? I don't know that I personally have a feel of that.

Mr BINFORD. I think the representatives of the Associations might have more statistics than I would. I would just comment, I think they have been in certain areas, yes, I think they have been an important part of our upgrading of our plants, at least, if not—I don't know that we've used them that much for attraction of industry, unless it's attraction of Indianapolis industry out to the State.

Representative HAMILTON. Are they widely used?

Mr. WALLS. It is almost the only tool Indiana has to offer some incentive. We do have a tax abatement program which has been used, but the industrial bond programs in their various communities have really been rather extensively used.

Representative HAMILTON. So, your implication is that the industrial development bond is a critical tool for Indiana, all of you agree on that, do you?

Mr. MCCARTHY. I think so.

Mr. WALLS. Something like it would certainly have to be a tool for local communities.

Representative HAMILTON. Let me jump to another topic, and that's this business of private sector training of workers. We've got a tax credit for that kind of a device, for that kind of a program, in the Congress, and the law today hasn't worked very well. We all recognize that one of the very important ways to increase productivity is to increase the training and the quality of your work force. What can be done, if anything, to encourage the private sector to get involved in the training of workers and why hasn't the tax credit device been more utilized?

Mr. BINFORD. I may just take a shot at it. In fact, I am away from a meeting right now of the Governor's Youth Employment Committee, which I'm a member of, and it's meeting at the moment. I'm going to it. I know we studied this question statistically as well as from my own point of view here in Indianapolis. I am chairman of the P.I.C. Private Industry Corp. here. I think it's poorly marketed.

As we heard earlier, the businesses that are employing new employees are probably more conscious of training or feel the need for the training or the smaller businesses, and the complications of the program scare away most entrepreneurs if they just see it, as maybe $1,000 a year. It isn't worth it. They don't have anybody that specialized in training for their business and they have to handle it themselves. It just isn't worth it. I think that—and it hasn't—they haven't gotten enough help. I think we need to market it more.

Representative HAMILTON. If we increase the tax credit substantially would that help?

Mr. BINFORD. It might help, but I think more important than that is making them aware of it. I don't think they're really aware, and I think streamlining the procedures or supplying technical help, which P.I.C. could do or these associations could do, supplying that kind of technical help so that they feel comfortable, I think that would do more than the amount of the tax credit, personally, although I'm sure many of my colleagues would say the opposite.

Mr. WALLS. This is the general attitudes of those that I speak with. The one additional item I would mention is that, obviously, it's a very discouraging kind of program because you are also urging employers to consider entry level situations because that's, in many cases, where the problem is in a down economic turn. Of course, there are relatively fewer entry level positions, but, yes, these are the comments I've had, as well.

Representative HAMILTON. Well, I was a bit surprised to hear Mr. Binford approve CETA. Not even in Washington do they find many people approving CETA these days, and I suspect you may not speak for the full panel before you on that question.

Mr. BINFORD. Title 7, primarily.

Mr. WALLS. I'm a member of the Indiana Employment and Training Council, so I think what he said was very true, and that is the program needs to be looked at very hard.

Representative HAMILTON. One other item, then I'll call on Congressman Evans. I just picked up a statement you made, Mr. Binford, about our educational units, research facilities, being underutilized. Could you elaborate on that a little bit for me?

Mr. BINFORD. Yes. I think this connects with my remarks regarding our venture capital pools. I don't think we've yet gotten a linkage between the resource, the university resource and new businesses and the improvement of the old yet. I think the large companies seem to use them better than the smaller, but I think we need to do more to connect the private sector with those resources. We have an institution here under the acronym of ICFAR which creates—or during the last few years has come up with many possible practical applications of technology, and, yet, during this whole period of time we've not yet here in Indianapolis developed a financial system for funding this sort of thing. The private sector has not really stepped up and seen the need, perhaps, or if there is a need that they have some responsibility. I think, including the banks, I think, we have a responsibility, but, again, it's equity. At 17 percent, lending somebody money isn't always doing them a favor.

Representative HAMILTON. Congressman Evans.

Representative EVANS. Thank you, Mr. Chairman. Mr. Binford, I'd like to ask you which you believe is more important to the economy and the future economic development in the State of Indiana over the period of the next 4 or 5 years, an aggressive move at the Federal level to cut spending and thus get a balanced budget or to move on much of this tax reduction legislation that we're hearing about from both individuals and businesss?

Mr. BINFORD. I think it's hard to juxtapose those two, which is the more important. I think inflation certainly has been a real detriment to the economy. On the other hand, I'm sure as you're well aware by now, there is an awful lot of vested interest in the inflation, including the houseowner, so that it's not that easy. When you're taking it out you're going to cause some problems, some serious problems; in fact, I think more serious than anything I've read about or is generally known. When this is accomplished it's going to be, I think, a lot more painful.

My personal opinion is that Congress can do something about this to encourage investment capital, encourage savings which, again, is utilized as investment capital by a third party, would be as important to the economy as balancing the budget down to zero. I think we could easier live with a $20 billion or $30 billion deficit than with what I think is a disincentive to save by charging interest on savings, just to pick one out that I'm familiar with because I'm in the business, and it may sound self-serving, but I really do—I think the concept and the psychology of a balanced budget is important, a controlled budget, let's put it that way, a feeling, just as we were saying in taxes, even homeowner's taxes, you know they're going to be the same for 10 years. You can live with them better than you can if they're fluctuating.

I think it's the same way with a balanced budget. If you know that we're going to get along on a $20 to $40 billion deficit or whatever percentage, I think we could live with it if we felt somebody was going to stop it there, not go any further, so I think it's the consistency of the program and I also agree with my colleagues that the consistency of trying to recognize the importance of the economy in everybody's life and not looking at it as if you're doing something for business or not doing something for business, if you want to not do for business you can get the businessman somewhere else, his personal income tax or someplace, but don't take it out on the institution that's creating the jobs and exporting and doing the rest of these to keep people alive and well.

Representative EVANS. Thank you, Mr. Chairman.

Representative HAMILTON. One of the mistakes we made in setting this panel up is we've got too short of time to spend with each panel.

You've given us a lot of good thoughts. We appreciate it. Thank you very much for your participation this morning.

[A brief recess was held.]

Representative HAMILTON. We're very pleased to welcome the three members of the academic panel, Carlyn Johnson, who's an associate professor, School of Public and Environmental Affairs at Indiana University-Purdue University at Indianapolis, Morton Marcus, research economist, Division of Research, School of Business, Indiana University, Bloomington, Ind., and Herbert Sim, chairman of the Department of Finance, College of Business Administration, University of Notre Dame. I think probably each of you have an opening statement. Your statements, of course, will be entered into the record in full. We would like for you to make any comments you think appropriate at this point on the Indiana economy, then I'll take a few minutes to ask some questions. Mr Sim, I usually start over on my left side here. If you'll begin we'd appreciate it. Glad to have you with us.

## STATEMENT OF HERBERT E. SIM, PROFESSOR AND CHAIRMAN, DEPARTMENT OF FINANCE AND BUSINESS ECONOMICS, UNIVERSITY OF NOTRE DAME, NOTRE DAME, IND.

Mr. SIM. Thank you, Mr. Chairman. First of all, I should like to thank you for inviting me and giving me the opportunity to present my views on the State of Indiana's economy.

During the few minutes allotted to me, it is my intention to focus very briefly upon what I consider to be the root cause of the economic distress from which the State—and especially its northern half—has been suffering in the recent past and will continue to suffer into the foreseeable future unless certain changes take place. I am referring to the heavy dependence of the economic well-being of the State upon the success of two major industries—the automobile and steel industries—industries which in recent years have priced their products to a significant degree out of both domestic and world markets.

The long-term answer to the problem posed by the apparent inability of the automobile and steel industries as currently constituted in this State to compete effectively with foreign and, to a lesser extent, domestic producers is not to be found in subsidies or loan guarantees by Federal or State governments, nor is a permanent solution to the problem to be found in attempts to protect the industries through tariffs, quotas, or restraints imposed upon foreign competitors—whether voluntary or mandatory—all of which would impede the free flow of international trade and would put a heavy burden upon the American consumer. The answer is to be found, on the other hand, in the realization that the main cause of the inability on the part of these industries to compete effectively with producers in the rest of the world—and more and more also in other parts of this country—is an unrealistically high labor cost structure brought on by high wage rates and costly fringe benefits which are not justified by the productivity of labor when fully employed.

Such high costs of labor have already caused tens of thousands of workers in Indiana to lose their jobs and will continue to do so unless significant changes occur. Such necessary changes will be brought about only through changes in the attitudes of workers and of their unions, of management, and of government toward the substance of collective bargaining.

In the final analysis, workers in highly organized industries will have to decide for themselves whether more modest wage rates and fringe benefits in their current positions are to be preferred to working for still lower wages rates and benefits in other industries—perhaps in other parts of the country—or to not working at all. As for the role of public policy in all of this, government should neither encourage nor condone irresponsible action around the bargaining table by making it clear to all on both sides of the table that it will no longer bail out those who, through the misuse of economic power or through ignorance, price themselves and others out of the market.

Representative HAMILTON. Thank you, Mr. Sim. That's brief and to the point. I got the message very well. Ms. Johnson.

## STATEMENT OF CARLYN JOHNSON, ASSOCIATE PROFESSOR, SCHOOL OF PUBLIC AND ENVIRONMENTAL AFFAIRS, INDIANA UNIVERSITY-PURDUE UNIVERSITY AT INDIANAPOLIS, INDIANAPOLIS, IND.

Ms. JOHNSON. Thank you very much, Representative Hamilton. I've been asked to say a few words about Indiana's State and local tax structure and its relationship to economic development. You ought to know at the outset that I'm a lawyer, not an economist, so my comments will be somewhat different, I think, from those you hear from the other panelists.

Perhaps the most often asked question when we talk about economic development and industry location is how important are State and local taxes to a business location decision, and the answer that you get to that question depends on whom you ask.

In 1979, the Indiana Commission on State Tax and Financing Policy sought to find some definitive answers to that question. They undertook 3 separate studies—1 sought to compare the after-tax rate of return on capital investment of a variety of specific types of industry located in 29 specific sites in 10 States—including, of course, Indiana and its neighboring States and other States with whom the designers of the study thought Indiana competed for industry location. It looked at the total tax burden; Federal, State and local.

Such a study, of course, is a monumental undertaking and to try to summarize it in one sentence would not only be doing the study a gross disservice, but it would be effectively impossible. But, one of the conclusions reached was that the differences in rate of return were quite small no matter where the firm was located. The difference never exceeded 11 percent—if the low was 10 percent and the high 11.1 percent—that's a difference of 11 percent.

The author of the study concludes that this narrow range of differences in rates of return is attributable, first, to the competitive forces at work in the design of State tax policies; that is, each State tries and apparently has succeeded in designing relatively attractive tax policies, and, second, to the Federal tax deductibility of State and local taxes. Wide differences in State and local tax bills are substantially reduced by this Federal deductibility.

In a second study the Commission on State Tax and Financing Policy sought to determine the expansion plans of certain Indiana corporations. Three hundred and seventy-one corporations each with more than 50 employees and $1 million in annual sales responded to a mail survey. Seventy percent of the respondents said that taxes were either a critical or a very significant factor in determining a location decision, but at the same time 70 percent of the respondents said that they would expand in Indiana within the next 5 years, which leads one to the conclusion that the tax burden in Indiana must be relatively favorable.

In the third study conducted by the Commission on State Tax and Financing Policy, 28 Indiana manufacturers were personally interviewed to seek their views on the health of the Indiana industry, their views on Indiana as a place to locate or expand their operations, and their views on Indiana State and local tax. While taxes were of some concern, far more important concern seemed to be availability of labor, wage scales, productivity of the labor force, availability of energy sources and transportation. Only the property tax on inventories, which Indiana still has, unlike its neighboring States, was consistently mentioned as a tax problem.

And, indeed, Indiana is a relatively low tax State, although the commission's comparative tax burden study—the first one I mentioned—is quick to point out that such a characterization—that is, as a high tax or low tax State—can really be quite misleading because tax burdens will differ significantly depending on the type of business and the asset characteristics of the business.

Nevertheless, if one looks at Indiana and compares it with other States on a per capita basis, for example, Indiana ranks very low in both tax burdens and in expenditures. On a per capita basis we ranked 46th in 1977 in total general revenue, 50th—that is, last—in revenue received from the Federal Government, 46th in money from Federal general revenue sharing, 44th in non-property-tax revenues, 31st in State and local tax revenue per capita, and our ranking in this last category—that is, total State and local tax revenue per capita—has been going down. We were 31st in 1977, 34th in 1978, and 40th in 1979.

At the same time, we rank very low on the spending side. We're 47th in general expenditures per capita, 35th in expenditures for education, 47th in welfare expenditures, 39th in expenditures for police, and 38th in highway expenditures, and, as you would expect, we are also at the bottom of the list in outstanding debt.

Well, lots of people would say that that's the best place to be, at the bottom of the list both in terms of money collected and money spent, but is it? If State and local tax burdens were really crucial in business location decisions, you'd really expect business and industry to be banging on our doors to get in, but they're not. So, what else do we need to do? It's hard to make a convincing argument that we need to lower the general tax burden. How do you make a State more attractive to business and industry when it already has one of the lowest tax burdens in the country?

Well, I've been dealing with the Indiana General Assembly in one fashion or another for more years than I really care to admit. I've seen us go through two major tax changes. The first was in 1963 when we first adopted the general sales tax—although we called it something different—and replaced the gross income tax on individuals and some businesses with a net income tax. Matthew Welsh was Governor then. The legislature adjourned with no budget.

Governor Welsh called them back in a special session and eloquently pointed out the needs Indiana would face in education, mental health, parks, public safety, and economic development. The legislature responded with a budget and the necessary tax changes and tax increases to fund it. The system worked pretty well for 10 years. Then, in 1973 we went at it again, this time principally because of a very, very vocal opposition to ever-increasing property taxes. The changes made in 1973 attempted to shift a portion of what had previously been paid from the property tax to the other, more palatable, tax sources, and was accompanied with a freeze—a freeze which, by the way, has been thawed, at least a little bit, almost annually—on property taxes. A tax freeze simply won't work unless government is given some viable, alternative tax source, which local government has not had to date, although the legislature is right now considering making the alternative more palatable for local government, and I expect that it will pass.[1] How much more acceptable the alternative becomes, I think remains to be seen.

But, given what's happening to our economy today and what's happening to States' surplus funds here and across the country, Indiana is going to be faced with hard tax choices again, soon, perhaps next year. Some might argue that, in fact, we actually faced it this year, but chose not to deal with it. But, what's going to happen next year? Will we make the hard choice, bite the bullet, so to speak, and raise the additional money that we need, or will we cope by closing more hospitals, allowing our prisons to become more overcrowded than they are, shortchanging our elementary and secondary schools and charging more tuition for public higher education? That's an easy short-term solution, but it will lead to far more serious, long-term problems.

And what concerns me is that this easier, do-nothing solution may well be hung on a "economic development" hook. "We can't raise taxes because that will discourage business and industry from locating here."

That will be a mistake. Location decisions are affected only marginally by the tax structure. We ought not destroy that structure in the name of economic development. We ought, instead, fix up our spending structure to give communities the amenities business and industry seeks.

A recent success story. Maybe you've already talked about this. Columbus, Ind., in competition with a large number of other cities has just recently succeeded in attracting a very large German farm implement manufacturer to locate there. I had a chat yesterday with a gentleman active in the Columbus Chamber of Commerce who was intimately involved in the efforts to attract this plant, and I asked him why he thought they chose Columbus. Well, he said Columbus is an attractive place to live, has an excellent school system and the State's new program to train and retrain workers—

[1] It did not pass the 1981 general assembly.

those were the things he mentioned, not taxes. I think it's going to behoove us to remember that next year when, indeed, we are faced with tax choices.

Representative HAMILTON. Thank you, Ms. Johnson. Mr. Marcus.

## STATEMENT OF MORTON J. MARCUS, RESEARCH ECONOMIST, SCHOOL OF BUSINESS, DIVISION OF RESEARCH, INDIANA UNIVERSITY, BLOOMINGTON, IND.

Mr. MARCUS. I'd like to agree with my colleague from Indiana University that the problems in Indiana very often are associated with a lack of investment in the State. The last time that the State of Indiana made a major investment in itself was when it built the toll road across the northern part of the State and then built Burns Harbor where the Bethlehem Steel Co. has currently located its facilities. That was 1963. Since then the State of Indiana has made no major, significant investments in itself, and as a result has not been attracting industry as it might have been.

I think that, however, for a congressional hearing, our concern is the role of the Federal Government, and the role of the Federal Government over the past 30 to 50 years has not been neutral with regard to the States in its various policies.

We have now a situation where we're hearing a great deal about getting the Federal Government off the backs of individuals in terms of their own investment and spending decisions, although we see some contradictor evidences out of this administration in Congress, I would think that we would also wish to see the Federal Government be as neutral as possible in the location of economic activity. I would agree with my colleague from Notre Dame that we would not want to see Federal intervention in the activities of the marketplace with respect to specific industries. We would not want to see Federal intervention in the process of location of private activities with regard to various States. However, the Federal Government expenditure programs over the past 50 years have not been geographically neutral and a more recent program, the revenue sharing program, has technical difficulties involved with it which also are to the disadvantage of certain kinds of communities such as those we find in the State of Indiana.

Revenue sharing funds are given on a basis whereby they were proportional to population, which means the revenue sharing funds tend to grow as population is growing. Hence, rapidly growing communities in the United States tend to receive ever-increasing shares of revenue sharing funds, whereas those places which are declining or slow-growing do not receive increasing shares of revenue sharing funds if current population estimates are used or if the census numbers are used.

We had a meeting of 209 places in Indiana. I believe the figure was 60—excuse me—70 of 209 places in Indiana declined in population in the past 10 years. This would entitle them to smaller shares of funds if population is to be used as one of the allocation mechanisms. We also have per capita income money used as one of the bases for revenue sharing funds. Per capita money income is measured by taking an estimate of total money income and dividing it by population.

It happens to be the case that the per capita money income can grow rapidly in a community where young people are leaving and the result is that population is declining, they are not adding to the labor force and they are not adding, then, to the income that's being generated in the community. Knox County, Ind., the community of Vincennes, is a good example of this. Knox County has had a very rapid growth in per capita money income as reported by the U.S. Department of Commerce for revenue-sharing purposes and yet the growth in Knox County's per capita money income is largely a function of the decline in population, particularly of young people as they have left that community and gone elsewhere.

It would seem to me that we need a change in the way in which the Federal Government is allocating funds because, in effect, what they are doing is they are furnishing those communities which tend to be losing population or not growing as rapidly as the rest of them and those communities, particularly that are losing as many Indiana communities are losing their young people, people who would otherwise be staying and contributing to the income, I think that we have to consider that many of the communities in Indiana have substantial physical plans in terms of school systems, in terms of education systems, in terms of health facilities that are likely to deteriorate without some kind of special attention. It's a problem, not just of the State of Indiana, but of the Midwest and of the Northeast, in particular, and the revenue-sharing program which gives to the communities a great degree of freedom in their allocation of these funds also tends to work to their disadvantage, so, Mr. Chairman, in response to your request of just a few weeks ago that I not be descriptive but be prescriptive, I've tried to offer some suggestions with regard to specific Federal programs.

Representative HAMILTON. Well, thank you very much. I was interested in your comment, Ms. Johnson, and I want the others to comment on it as well, that, if I understood you correctly, you're saying to us that what we can best do to attract business and to maintain business that we have is not to play around with the tax structure in the State, but to spend more for infrastructure and defining infrastructure rather broadly, is that your thesis?

Ms. JOHNSON. That's right, and it seems to me that the studies which have been done really do indicate that those kinds of things are much more important than the tax structure. Is it a comfortable community in which to live? What does the education structure look like? What does the school system look like? What's the transportation system? The studies that I looked at that the Tax Policy Commission did all seem to indicate that the wage scale and the relationship that the community has with labor are very, very important. That really is effectively what Professor Sim was saying.

Representative HAMILTON. Let me get clear on this point. Mr. Marcus and Mr. Sim, do you agree with that basic point of view?

Mr. MARCUS. Yes.

Mr. SIM. Yes.

Mr. MARCUS. I would add a few points to that. I think that the roads and the water system are important, as well. I'm not against the education system and library, but I do think that the physical structures that we have in our communities are deteriorating and in many communities they are 100 to 150 years of age, and we need to be concerned about our street lights as well as the trees along our streets.

Mr. SIM. Now, I'd like to endorse what Professor Marcus said about Federal subsidization. I think that a perfect example would be the urban mass transit program. Certainly it helps a few major cities in this area, but, by and large that type of program works against the State of Indiana simply because it redistributes wealth, it redistributes resources in such a way as to encourage the location of economic activity in major metropolitan areas, New York, Chicago, Los Angeles, and so forth.

That sort of program works against us, and I'm not sure that our representatives in Congress have realized that in the past.

Representative HAMILTON. One of the suggestions made a little earlier by one of our business panelists was that the State does not adequately use its academic institutions and its research institutions for business development and there does not seem to be a linkage which uses the assets of the university community in business. Do you have any sense of that? Can you comment on that, and if it's true, what kind of linkage is necessary?

Mr. SIM. I'd like to say—and you have to remember that I'm from a private institution—that the State has relied almost exclusively upon the State institutions or primarily Indiana University as far as the business area is concerned. I think this might be a mild criticism, but I really don't want to say that the State should embark on a major program of supporting or cooperating with institutions such as Notre Dame or some of the other private institutions in the State, but I think the State should be made aware that there are other institutions in this State besides Indiana University, and I think there is even an emphasis upon Indiana University as opposed to the other State institutions.

Mr. MARCUS. I would be pleased to defend the record of Indiana University if we had as much involvement as some of the others might believe we do, but we think that there should be and can be more, and the question of why there has not been more in the past is a complex one that deals in part not just with the ways in which the universities are funded, but with the ambitions of the various agencies within the State government. Just as within agencies in the Federal Government. There has in the past—and I do not ascribe this necessarily to the current administration—but in my 11 years of experience in the State of Indiana there has been a great deal of desire on the parts of many institutions—agencies within the State government to recreate some of the capabilities that already exist at the State-supported institutions and which may exist at some of the private institutions. I think that the spirit of cooperation has really improved in the past few months as it's recognized that there are scarce resources and those resources that apply to State institutions can also apply to State——

Representative HAMILTON. Are there good links that exist between our research capabilities and our universities today and the business community? We all hear so much about the importance of technology and the like.

Mr. MARCUS. Are we talking about links between the business communities and the university or between the State government and and the universities?

Representative HAMILTON. I'm talking about links between the community and the university, how do you get the ——

Mr. MARCUS. Those links are poor.

Representative HAMILTON. The benefits of research flowing into the private sector quickly and easily?

Mr. MARCUS. Those links are not well established. They're not well established, and the reasons for that are, again, I think largely historical, that the universities have been concerned with training their students and disseminating their information through traditional academic channels and that other channels have not been opened and that many institutions are careful to avoid what might seem to be proprietary work because many of the problems that businesses have are very specific to those organizations and they are looking for very specific answers to specific problems. If the universities were to undertake that kind of activity they'll then get involved in what amounts to proprietary research.

Representative HAMILTON. How do other States work out that problem? You see the growth of high technology areas in the country just prospering, businesses, I can think of a number of illustrations of it, Research Triangle in North Carolina, Silicone Valley in California, the Massachusetts area there, what kind of institutions do they have, do you happen to know offhand?

Mr. SIM. In every one of these cases you have a set of high quality universities in the area and they're really the nucleus of that illustration.

Representative HAMILTON. How do they make the transfer. What are the linkages?

Mr. MARCUS. They are, in large part, private arrangements between individuals on the faculty, not necessarily institutional arrangements. In some cases you have an organization such as the Stanford Research Institution which at one time was part of Stanford University and now has become a separate organization, a private organization. We see in Pennsylvania a similar effort being made because academic institutions do not well incorporate the kind of business-oriented activities which fit with the private sector, the consulting activities. I think that we're really asking our institutions perhaps to do something for which they are not best suited. It's possible for individuals within those institutions to participate. I think it's also possible for the institutions to perform certain kinds of services for business in the form of education. The State of Indiana was a leader in television at one time, but we have not been taking some of that leadership position and applying that, so that new firms coming into Indiana are able to utilize televised forces out of our various universities.

We have not developed that kind of capability. We do not make our computer facilities available to the various private organizations because of the difficulties that we have, and, again, difficulties that are in part related to the role that the legislature has traditionally seen for the university. Some of this has to come as a question of leadership within the university, but also leadership in the public sector in seeing the university as a change element and not seeing it just as teaching students in the classroom, but rather teaching by making available resources to 5,500,000 people in the State. If the legislature does not see that, if the administration does not see that as a role of the academic institutions it becomes difficult and sometimes the institutions are loath to bring that up themselves because it seems to be empire building.

Representative HAMILTON. Mr. Sim, your comment about the labor cost structure being the fundamental problem, as I understood your comments with regard to the two industries where we have real difficulty today in this State, how do you deal with that kind of a problem?

Mr. SIM. Well, admittedly, it's very difficult to deal with it because of the great strength that the unions have, but I suppose one thing that the Federal Government should not do is to reward irresponsible behavior, reward it by taking monetary and fiscal measures that inflate the economy and thus validate the unrealistically high settlements that are reached around the collective bargaining table. Also, unemployment compensation benefits should be somewhat restricted and should not make it so easy for unions and their members to obtain high wage settlements in the knowledge that their people, that is, those who will be unemployed, will be taken care of.

Representative HAMILTON. You can't blame the worker out there, though, if he's trying to keep up with inflation, can you?

Mr. SIM. No, you can't blame the individual worker, but I think that what you have to do is to try to make sure the decisions on the part of unions are made by relatively small groups. For example—this is not really such a small group—but I'm thinking in terms of the Chrysler employees, decisions whether the Chrysler employees are willing to accept a modest wage settlement should be made essentially by them and should not be determined primarily by people who represent General Motors and Ford employees, because if the decision is made on a very large scale it could very well be that the majority would be willing to sacrifice the welfare of the Chrysler employees for the welfare of the GM and Ford employees. I don't know exactly how the Federal Government could impact upon the collective bargaining situation, but this should be one of the directions in which we should move.

Representative HAMILTON. You have a sense that high labor costs are a major factor in Indiana's problems?

Mr. SIM. They certainly are, certainly in the northern part of the State. You have unemployment considerably higher there than in the rest of the State. In some of the steel and automobile centers, unemployment is at 9 and 10 percent right now whereas statewide it is 8.5, nationwide it's under 7.5. So I think that you definitely have a problem there, and in the northern part of the State I think it's not so much a question of how do you expand, it's more a question of how do you hold on to what you have.

Representative HAMILTON. Professor Marcus, on the revenue sharing, we get back relatively small amounts in Indiana compared to other States, at least according to your statistics, Ms. Johnson. Part of that is because our tax effort is not as great, isn't that built into the formula as well?

Mr. MARCUS. That's right.

Representative HAMILTON. Is that a good thing or bad thing?

Mr. MARCUS. That's because the Indiana tax structure is such that the tax effort looks small because of the way in which the formula is derived. With the 20-percent-tax credit that comes from the State we have a bias downward in Indiana that does not appear in other States because of our particular way of formulating our taxes.

Representative HAMILTON. Spell that out for me, would you? I'm not sure I understand that point.

Ms. JOHNSON. In 1973, when Indiana undertook proposition 13 before California ever thought about it, one of the things they said was we're going to roll back the property tax by 20 percent and we, the State of Indiana, will pay it and we'll pay it out of a property tax relief fund which is funded by money from sales tax and from corporate income taxes, and that's what Professor Marcus is talking about. That means that 20 percent of the property tax comes from the State rather than from property taxpayers, so the property tax effort as it is measured in each community is reduced by 20 percent. Within the State it doesn't make any difference, it washes out but as between States, you see, we've got a higher property tax effort than it seems to be.

Mr. MARCUS. Does not show up as a local tax.

Representative HAMILTON. I see. Well, I've got a lot of notes here I'd like to explore with you, but my time and your time is limited and I think we have others waiting to testify, so I want to express my appreciation to you for your comments. I don't think you were here earlier when I said that the transcript of this will be made available. We'll see that you get a copy of it, and I hope we can get a lot of good ideas for not only Congress, but for the State, and I think we will from the panels we've had so far. Thank you for your contribution. Nice to see each of you.

All right, our next panel will be John Chaplin, Region III, UAW, and Ernie Jones, president of AFL-CIO.

Gentlemen, I welcome you both to the panel and we appreciate your willingness to be here and make a contribution this morning.

If you have prepared statements we certainly would like to receive a copy of those at this time. All right, they've already been submitted to us. Let's proceed, and we'll hear first from you, Mr. Chaplin, if you would. Would you proceed, and then we'll go to Mr. Jones and then we'll have a little discussion.

## STATEMENT OF JOHN R. CHAPLIN, INTERNATIONAL REPRESENTATIVE, EDUCATION DEPARTMENT, REGION III, UNITED AUTO WORKERS OF AMERICA, INDIANAPOLIS, IND.

Mr. CHAPLIN. My name is John Chaplin and I'm an international representative of the education department of UAW, Region III, which covers Indiana and Kentucky. In my remarks today I want to describe the sorry state of the auto industry in the Nation, the midwest region, and the State of Indiana. I then want to lay out the UAW's program to revitalize the industry. Finally, I want to convey to you what is at stake for Indiana and the Nation if our program fails, and to solicit your aid in seeing that that doesn't happen.

The U.S. auto industry has been in a major crisis since March 1979. In that month, the multinational oil companies allocated oil of the non-Communist world's shortage, oil shortage, resulting from both the Iranian revolution and the U.S. Government's policy of discouraging spot market purchases to the price-controlled U.S. market. The result, of course, was lines at the pump, quickly followed by a 50-percent runup in the price of motor fuels. That, in turn, led to a collapse in the sales of intermediate and full-size cars and light trucks, and a corresponding surge in the sales of small, largely Japanese, cars. In a nutshell, the oil companies' tactic of winning price decontrol through unfairly allocated shortages combined with a Government policy of keeping fuel cheap—rather than, as the UAW had urged, raising it to world levels through a tax whose revenues would be rebated to the American people—to produce a collapse in domestic and an explosion in Japanese car sales.

The market has remained depressed for three reasons. First, the economy—particularly in the auto and steel-dependent Midwest—has been depressed, holding down real incomes and hence inducing individuals and businesses to defer vehicle purchases. Second, the Federal Reserve has chosen to fight inflation with tight money policy. This has made it uneconomical for dealers to stock vehicles, and tripled the proportion of would-be retailers—retail buyers that are denied credit. Third, phased and now total gasoline price decontrol has strengthened a panicky switch to the highest mileage cars, most of which until very recently were Japanese made.

This third point is particularly important to understand to those who blame the domestic auto companies' woes on recession and high interest rates alone, I would point out that, unlike the 1974–75 slump in which foreign and domestic car sales both fell about 40 percent from peak to trough, the natural 1979–81 collapse has been composed of a 45-percent decline in domestic sales on a 30-percent increase in foreign car sales.

Figuring in the datum that European car sales have fallen 20 percent, it is clear that despite hard times Japanese car sales have risen an astonishing 35 percent in the last 2 years. That is why restraining Japanese imports and inducing Japanese investment in North America is the single-most important precondition to a revitalized domestic auto industry.

Who needs an auto industry? The ideological free traders tell us that, if market signals turn thumbs down on U.S. vehicle sales, so be it: America doesn't have an auto industry. After all, if we hadn't lost our comparative advantage in auto, there'd be no problem. It's a nice theory, perhaps, but it is also insane. If auto sales reflect comparative advantage, how in the world did the United States go from its peak comparative advantage in 1978 to such utter uncompetitiveness in 1979? Let's give the free trade shibboleth the benefit of the doubt, and honestly try to answer this question.

Was it our wages? Not likely; in 1979 two other countries—West Germany and Belgium—passed the United States in autoworker labor costs, and their auto industries didn't collapse. Was it fuel price increases? Again, not a very satisfying theory; from January 1979 to December 1980 excise tax hikes raised average European fuel prices by the same 50 percent that they went up in the United States.

What, then? The answer, the United States let fuel prices rise without cushioning the domestic auto industry from the unrestrained rise in Japanese imports that every other nation had prepared for through quotas, gentlemen's agreements, or realistic tariff levels. When the 1979 fuel price runup hit, the U.S. auto market was the largest and most open in the world. With most other holes plugged, the Japanese picked up the ball and ran into the one open slot they had.

That's where we are today; a steadily-rising Japanese share, 600,000 plus auto-related unemployed, a tax turn-around from 1978 to 1980 of $10 billion, and a bevy of policymakers and experts more interested in academic debate about free trade than in saving the Nation's single-largest industrial complex. It's crazy, but it's happening. Even those who seek to exploit the situation—to erode autoworkers' and by extension all workers' wages and conditions—have failed to produce a single analysis that shows that the U.S. economy would be better off letting the auto complex die than to allow it the breathing room to adjust to a suddenly changed world of expensive fuel. We're not asking these die-hard ideologists to give up their commitment to an imaginary world of free markets; we just want to see them show how the United States can have a healthy and growing economy in the 1980's with an auto industry that loses 3 to 6 percent of its market every year, and we want them to explain why every other country with a substantial auto industry is unwilling to give it away.

The nightmare goes on. In 1980, the U.S. auto industry suffered the worst financial year in the history of world business, losing upward of $4 billion. Sales were the lowest since 1961. As many as 2 million Americans collected unemployment insurance at some point last year as a result of the auto industry's slump. Throughout the Midwest, that slump reverberated through every corner of the economy; unemployment insurance funds ran out, tax receipts tumbled, schools were closed, workers who don't know a Toronado from a tornado found themselves without jobs or with pay cuts. Crime soared, property values fell, mortgages were foreclosed, evictions tripled, suicides rose, and breadlines and soup kitchens staged a comeback from cruel memory.

So far in 1981 things are actually worse. Domestic new vehicle sales are running 10 percent below 1980 levels, and only a recurrent series of price rebates have kept the import share from rising above its 1980 record. In Michigan, some 20,000 people are exhausting all benefits every month.

In Indiana, plants are closing so fast that newspapers no longer deem the fact newsworthy enough to write about. Despite massive discouragement that has led tens of thousands of Hoosiers to leave the State and the job market, 9.9 percent of Indiana's workers—2 points above the national average—are unemployed. In Anderson/Kokomo, official joblessness stands at 13 percent. In Evansville/Henderson, the figure is 10 percent. In 1978 the corresponding figures were 6.6 percent for the State—below the national average; 6.4 percent in Anderson, 5.4 in Evansville and 5 percent in Kokomo.

Indiana is an auto State; the world may link auto with Detroit, but relative to the size of its work force, Indiana is the second most auto-dependent State in the Nation. In 1978 some 68,000 Indiana workers were employed in the manufacture of motor vehicles and parts; today the figure is about 43,000.

Slumping domestic auto sales have caused massive layoffs at Ford's facilities in Connersville and Indianapolis; at Chrysler's Kokomo, Michigan City, New Castle and Indianapolis plants; and at GM's facilities in Anderson, Bedford, Indianapolis, Marion, and Muncie. On top of these Big Three cuts, we estimate that over 150 Indiana parts-supplier plants have either shut their doors or laid off more than 50 percent of their employees since early 1979. In short, revitalizing the Nation's auto industry is not just a Detroit problem or a Michigan problem, but very much an Indiana problem as well. We can talk about diversification all we like, but the fact is that without a healthy auto industry we live in a sick economy.

## UNITED STATES—THE ARSENAL OF THE DEMOCRACY

Every national leader speaks in favor of a strong national defense, some at the expense of other vital programs. During and immediately following World War II, America was known as the arsenal of democracy.

We demonstrated an amazing ability to convert our peacetime manufacturing capacity to the necessary production of the implements and vehicles of war. Production of automobiles for domestic consumption was halted and nearly all auto-related plants went into the production of war-related products to support the troops, both ours and those of our allies. Without a strong auto industry and available American plants to come to the forefront again, our future national defense capabilities will be gone. We will not have the luxury of importing from foreign auto manufacturers the necessary items of war.

## UAW PROGRAM AND INDIANA'S FUTURE

Now, I know I can't convince you that I appear here today as a typical disinterested Indianian; I don't. I represent the UAW. But, I hope the foregoing remarks convince you that the UAW's interests coincide with the interests of the people of this State, and I hope that the story I told about how the auto industry fell into hard times will help clarify the logic behind the UAW's program.

Let me sketch that program briefly. It's not a simple task, and those of you who want more detail can contact our Detroit offices and request Doug Fraser's January 14 and March 9 congressional testimonies, in which our proposals are fully presented. First, we're asking the U.S. Government to negotiate an orderly marketing agreement, under which the Japanese would agree to limit car exports to the United States to 1.2 to 1.6 million per year in 1981, 1982, and 1983. It looks as if the new administration isn't leaning that way, and that may spell disaster; without such voluntary restraint, our research department sees Japanese car sales in the United States rising from 1.91 million cars in 1980 to over 3 million in 1983.

Second, we want to see monetary policy relaxed. Interest rates should be brought down, and the credit-sensitive industries should be protected from sudden swings in overall credit availability.

Third, the U.S. Government should offer a tax credit to buyers of high mileage per gallon new cars, a credit that rewards manufacturers that employ North American workers. One way to do that is to base the size of the credit on local content, the proportion of the vehicle's value added that is North American.

Fourth, we call for a scrappage bounty to induce the accelerated retirement of the oldest vehicles on the road. In 1970 the average car was 5.5 years old; today it's 6.9 years old, and the disbenefits of this unchecked aging in terms of fuel use, pollution, and safety are obvious.

Fifth, the UAW calls for an improved, expanded worker adjustment assistance program. Instead of cutting back TRA, which was won after all as the quid pro quo for labor support of liberal trade policies, it should be continued and it should be extended to now eligible workers in parts supplier firms.

Sixth, we call for a targeted investment subsidy for domestic car makers. An extra 10 to 20 percent investment tax credit should be made available for spending on all new high miles per gallon vehicles produced in existing facilities. I trust that the antidislocation thrust of this last provision is clear.

Seventh and last—and in the long run, most important of all—the UAW calls for legislated local content requirements, which would require that by 1986 all production-compatible vehicle lines selling upward of 200,000 units annually in the United States contain at least 75 percent North American value added. By the way, Business Week backs such an approach in its April 13 editorial. Local content is essential if the Japanese are to be induced to build where they sell, a policy that has characterized the investment behavior of the "Big Three" and the major European producers.

Local content is also important to keep the "Big Three's" foreign sourcing within manageable limits. It is one thing to promote an auto-industrial policy that gives domestic producers some breathing room; it is another to promote one that makes them breathe at home. Let me illustrate what I mean in the context of Indiana. Without requirements that domestic nameplate vehicles embody domestic labor, GM will almost certainly disinvest in its Muncie transmission operations and outsource some or all of the work to its Strasbourg, France plant. Ford's better ideas—unless constrained by content mandates—include moving some transmission work now done in Indianapolis to Toyo Kogyo of Japan and some electronics work now performed in Beford to Toshiba. Similarly, Chrysler plans to shift jobs from several Indiana facilities to its Mexican subsidiary, and to Fiat and Mitsubishi shops overseas. The message should be obvious; only a visible government policy of retaining auto-related investment employment in North America can insure that there will be any significant auto industry in Indiana in 1990.

The American and the Indiana people are not asking for too much—a decent job, a roof, decent meals, and a chance for a little leisure.

The basic decencies are increasingly denied to more and more people, and it's time for all of us to take a look at why.

The Reagan-Stockman-Republican budget cuts are designed to get the Nation moving again, to take government off our backs, to ease off inflation, and to put people back to work.

But, the more you take a close look at those cuts, the more you see that all those good things don't flow from hitting the poor or beating up on the working middle class.

Fair-minded people want to cut out waste and fraud, but fair-minded people also want to make sure that the elderly, the working poor, the jobless, and the handicapped are not made pawns in a giant con game to fool this Nation into thinking that something can come out of nothing.

That completes my remarks today. I seek your support for the UAW program, for investment and jobs in our State, for a healthy domestic economy in the decade ahead. Thank you.

Representative HAMILTON. Thank you very much, Mr. Chaplin. You've made quite a grim picture of the automobile industry. We appreciate your comments. It is helpful to us. Mr. Jones from AFL-CIO. Glad to have you, sir.

## STATEMENT OF ERNEST C. JONES, PRESIDENT, INDIANA STATE AFL-CIO, INDIANAPOLIS, IND.

Mr. JONES. Thank you, Mr. Chairman. Our problems are somewhat very similar to UAW because we're very much related jobwise in the manufacturing of the component parts in the steel industry.

The citizens of Indiana are not asking for much; just a decent job, a roof, decent meals, and a chance for a little leisure.

These basic decencies are increasingly denied to more and more people, and it's time to take a look at why. Indiana ranks 11th among the United States in terms of relative population. We rank 6th or 7th in terms of industrial output. Geographically, we sit at the crossroads of the Nation at the center of economic activity of every type.

Unfortunately, however, instead of prosperity, Indiana is now and has been for some time economically depressed.

While U.S. unemployment is at 6.2 percent unadjusted and 7.3 percent seasonally adjusted, Indiana's rates of unemployment are at the highest in the contiguous States at 9.9 percent unadjusted and 8.8 percent seasonally adjusted.

Actually, the total Hoosier unemployment picture is much higher when you consider that there has been over 39,000 workers so far this year alone whose unemployment benefits have run out and are still out of work but are no longer part of the official unemployment statistics. When you count these "invisible" unemployment, then Indiana's real unemployment rate is over 11 percent.

Full employment is the key to a viable economy. Unemployment cannot be used as a method of reducing inflation. Such an approach is not only immoral in that it wastes human talent and destroys the human spirit, it is also a self-defeating tactic.

Unemployment results in excess—and therefore idle capacity. Such idle overhead is very costly, and is, quite naturally, added to the price of the commodities purchased. So, to put it bluntly, using unemployment to reduce inflation is, in itself, inflationatory.

Excess capacity also means lower productivity. Idle plants are, by definition, not productive. Also, if a plant is going unused or only partially used, why should a company put up a second plant, modernize or enlarge the present facility.

We are told by the new administration that if we enrich the rich so that they will have the necessary capital to invest, then jobs and supply will be increased.

I suggest that a condition of unemployment and excess capacity is not an economic environment in which there will be much new investment, movement of workers or cuts in Government spending programs. It will also be an environment of large budget deficiencies.

That's why, for a full decade now, we have been suffering simultaneously from unnecessarily high unemployment and needlessly high prices—the sickness called stagflation.

Full employment is a prerequisite for a strong economy. Jobs must be provided for all who are able and willing to work. If the private sector cannot provide these jobs, then the public sector must be expanded to provide employment and services that are necessary to society.

Several measures can be incorporated to produce a full employment economy. The first is a tax policy that provides investment tax credit and depreciation allowances—not across the board, to conglomerates and multinationals—but to particular firms and industries on the basis of precise and planned needs and goals.

Reindustrialization is another means to achieve a sound economy. What is needed is a national reindustrialization board with powers to invest in private and quasi-public ventures through direct loans, loan guarantees and below market rate financing, and should supplement the existing investment programs in building and developing facilities that serve as industrial infrastructure and encourage development.

A reindustrialization program will require the cooperation and participation of everyone in society; taxpayers, through the Government, would bear the burden of direct and indirect financial outlays; business would invest capital in needed expansion and modernization, and pension funds of workers would also be used to invest in future economic health for the Nation.

Any reindustrialization policy must take account of the problem of plant closings. The devastating effects on workers and their communities from unannounced, sudden plant shutdowns and relocations should be eased by legislation, requiring advance notification, financial assistance to workers, and basic employee protection of collective bargaining rights, transfer rights, relocation expenses, severance pay, continuation of pension and health care benefits, and job retraining.

The full employment society also means an increase in worker's compensation and unemployment compensation benefits. Such increases insure fairness and also the maintenance of purchasing power so necessary to a democratic economy.

The minimum wage must be significantly increased so that at least keeps up with inflation. Every person who puts in a full day's work must be provided with a living wage that provides the necessities and pleasures of life. Further, we must reject any plan of subminimum wages whether these be aimed at youth, women, minorities or the handicapped.

Subminimum wage plans result in a revolving door of temporary employment at inadequate wages for some at the expense of permanent employment with good wages for others. There are no real gains when we pit the have-nots against the have-littles. Society gains nothing, not economically, not communally, not democratically, and not spiritually.

The economy can be strengthened only when every fiber of society is also strengthened. Only true cooperative action, reflecting a balance of the interests of the public, labor and industry can effective economic programs be achieved which benefit the Nation as a whole. This concludes my remarks.

I would like to add that I heard the comments of the high cost of labor by the group before Mr. Walls and myself, and I might just remind you that in 1980 the average contract wage-wise was settled at 9.4 percent. The cost of living was 12-plus, 12.3, so this would indicate to me that the average worker covered by a collective bargaining contract lost 3 percent. I hardly think this is high labor.

Representative HAMILTON. Thank you both, gentlemen. The first thing I want to ask about is what's happening to these people that are unemployed. I think you mentioned, Mr. Chaplin, that 25,000—is that the figure you used—autoworkers in longterm layoff in this State, and Mr. Jones referred to 39,000 whose unemployment benefits have run out. What's happening to these people?

Mr. CHAPLIN. You know, there is a popularly held myth that there is plenty of work out there for everybody if a person just gets off their butt and goes and looks for it. Last Thursday at the close of business on Thursday I had a meeting with Charles Mazza, who's head of the statistics for the Indiana Employment Security Division. They currently have on file applicants for 183,774 jobs. If he could fill every job that he currently has he could put 32,495 people to work, so there is a difference there of about 151,000 people.

Now, I think it's also commonly known that most of the jobs that are filled through the unemployment service are usally the low paid, dead-end type of jobs. You don't find very many of what we would call the better jobs except for some exception like Allison, for instance, is doing most of their hiring now through the unemployment, but with that many applicants on file they can be real choosey about the type of person they want. They want a guy with 4 to 5 years' experience on running a certain type of machine, so that precludes the vast majority from even being considered. People are running out of benefits. When I was a kid about everybody had a grandma or an aunt living with them. You check around today and we've all got a kid that's 20 or 21 years old that's still at home. Things haven't changed a lot. It's just the characters.

It's a different person, but there's still somebody you have to support. We're paying a lot of money to turn out graduating classes every year. I did a survey last year of all the Indianapolis and the county plants that belong to our union, and at that time there was only one hiring and that was Allison. When we checked the amount of seniority or the amount of time you had to have with the company to currently be working it was somewhere in a range—it varied from plant to plant—from 9 to 15 years, and we're talking about the best jobs. I talked to a group of teachers and they were astonished to find out that nobody that they had turned out of school in the last 15 years, for instance, was working at Ford because there just wasn't any place for them to work. It's a sense of discouragement, not only among the unemployed, but the teachers. They get them ready, but there's no place for them to go.

Representative HAMILTON. What's your observation on that?

Mr. JONES. Well, many of them find themselves in a state of real low wage earning, like contracting, roofing houses, this sort of thing. Now, the highly skilled individuals, I suppose with the exception of building, construction trades, to find another job to stay employed is easier for them because they've got a skilled trade to sell. The production worker is the one who might be a tremendous machine operator, but if you're not running production there's just no place for them and they find themselves in—especially after their benefits have exhausted, they find themselves at the mercy of working for somebody for minimum wage and, in many cases, unreported income, simply to survive. Their wives have been forced to maybe go back to work at Burger Chef or various places which then deprives the market of employment for youth, and that is the reason we're so opposed to subminimum wage.

I think in many cases an opportunity to a fast-food chain to hire youth at a lesser price is naturally attractive, but at the same time that probably deprives someone who's may be even a senior, retired one, and then they find themselves on the welfare's rolls.

Representative HAMILTON. What do you gentlemen see with regard to the industries like automobiles and steel in this State in the next year or two, if you can look into the crystal ball for a minute? Are you expecting a recovery, if so, what kind of a recovery; are you expecting a pretty grim time of it for another couple of years? What's the feeling within your industries about the immediate outlook?

Mr. CHAPLIN. Well, there is a lot of things that——

Representative HAMILTON. Let me just say that I was down yesterday afternoon at the Connersville Ford plant and I don't think I've ever seen expressed so clearly a feeling of gloom by both the management and labor people there about the future of that operation. That's Ford, but the gloom was so thick you could cut it down there, and I don't know whether that's typical of the industry generally, whether it's typical of Indiana or not. Maybe you could enlighten me a little bit on that.

Mr. CHAPLIN. Well, today if you go out and buy a new car, for instance, the going rate is 15-percent interest. You start talking about an investment of somewhere between $7,500 to $10,000, you're talking about a lot of money per month. This was something I also did by way of background. If a person, for instance, had a $1,000 to pay down on a new car and they ended up financing a balance of $8,500, the payment runs somewhere in the neighborhood of $260 a month. Now, that's for 48 months. Now you're tying yourself to a pretty good-sized financial commitment, when, perhaps you were 500 from the bottom of the seniority list 2 years ago and you may be now in the bottom 50, and, so, even among our own people there is a hesitancy to go out and to commit themselves to something that they're not sure of. There is a lot of uncertainty there.

Representative HAMILTON. These are the people that are working still?

Mr. CHAPLIN. Right, and there is no way a person who's drawing unemployment benefits or food stamps or welfare or anything else can even buy gas today, let alone thinking about purchasing something that's going to put someone back to work.

Mr. JONES. I think until the Federal Government takes some precaution in some type of legislation to protect some industries from the imports, I think we're going to be realistic. If it's not gloom, it'll be a reality. When 17 percent of the steel industry is imported, is foreign, and I suppose the auto is what, 28 to 29 percent, now we know that we have to maintain a balance of trade. That's how we do things, but you can't maintain a balance of trade at the expense of your own industries, and then if we're looking at what—the administration seems to be very concerned of defense, I've often asked myself what will we do if we have to turn our production into war production at some time and we had a lot of foreign facilities in this country. What would be their participation. We went through a period of time.

Representative HAMILTON. Mr. Chaplin made that point pretty effectively, I thought, on his paragraph, sir, on the arsenal of democracy.

Mr. CHAPLIN. A lot of people fail to remember history and, you know, if you forget it, it has a tendency to repeat itself, and I can remember when the Wayne school bus plant in Richmond, Ind., for instance, made troop-carrying trucks, and ambulances, but they didn't make the school buses. They did make some buses for the military, but they weren't selling school buses to schools. The plant we have right now in South Bend that puts out the A.M. General's 4-wheel drive Jeeps and trucks, has from time-to-time had problems.

You know we have the capacity and the ability to build those products today, but if those places go under they won't be there if we need them. Just recently in the news I've been hearing that our military for years thought in terms of fighting a limited nuclear war. Now it seems to be more and more the thinking that if we get into with Russia it's going to be more of a conventional war. That will require what we might call the old style type of implements to fight it. We have to have the ability to produce them.

Representative HAMILTON. Both of you commented about the need for orderly marketing agreements and some kind of protection against imports. We're going to hear in a few minutes here from the agricultural sector, and I suspect they're going to tell me they get pretty nervous about any kind of quotas or protection steps because the export market is terribly important to the farmer today. What are you going to say to our friends in agriculture if you get an orderly marketing agreement on automobiles or steel, either one? Japan may come along and say to us, well, we're not so sure we want your soybeans. How are you going to respond to that argument for the farmer?

Mr. CHAPLIN. Well, you know, one of the things people overlook is a lot of people fall in more than one category. We have a hell of a lot of autoworkers who are also farmers, and if it wasn't for the farm today—I suppose they're doing a lot more farming than they normally do. Japan, for instance, has got a land mass of about the size of Montana and they've got somewhere near about half the population we have. Japan doesn't have a lot of choice on whether or not they import food.

That is a big problem to us when it comes to exporting vehicles. There is no place in Japan for everybody to have a car. They discourage individual ownership of cars. They've got the best mass transit system in the world. You can get on a train, I understand, in Japan—I've never had the opportunity to do it—and you can travel 120 to 150 miles an hour. My point is, from the farmer's point of view whether they are selling cars over here or not, there is going to be a big need on their part to buy grain.

Representative HAMILTON. Have you got a comment on that, Mr. Jones?

Mr. JONES. Yes, I have, Mr. Chairman. There has been times in the history of the labor union in this great country that they've had to change their employment. There are very few people, I suppose, that are still with the first employment that they started with, at least if they're 35 to 40 years old.

Talking about the farming sector of this country, I have some deep feelings there because I was born and raised on a farm, and there were times that we kind of had to change the produce that we raised. You know, I guess the old saying is you know if you're in and out of hogs or cattle you're never there when the market's high and you should be, but I would say to the farming community that if this country is a strong industrial nation and our people are working, I think we would be in a position to utilize more of the commodities that are produced in this great country. I don't know whether we need soybeans, but maybe they could raise some other. Indiana particularly being a corn producing State as it is, I'd hope maybe they could do something about gasohol.

Representative HAMILTON. Let me ask you one other thing before we turn to the next panel. In a number of communities we've had some success with labor industry panels in developing economic strategies for the local community. Do you have any experience with those? Do you have any feeling about how they would work?

Are you now participating in any of them anywhere where labor and management get together and work on economic development strategies for a particular community?

Mr. JONES. We have some in Evansville.

Representative HAMILTON. What's your experience there?

Mr. JONES. It's went very well. In Indianapolis in the construction and building trade there is a topnotch program which has worked very well between labor and management.

Representative HAMILTON. Do you see that as a possible device that could be helpful on a broader basis in the State?

Mr. JONES. Yes.

Representative HAMILTON. Do you have any experience with that, Mr. Chaplin?

Mr. CHAPLIN. I served on one when I lived in Richmond and I didn't find their ability to attract industry or anything of this nature was greatly enhanced by that committee, but I did find that a lot of things we were able to solve. More of a specific type of problem, when presented to us.

Representative HAMILTON. Overall you felt the effort was helpful and constructive?

Mr. CHAPLIN. Maybe I ought to go in a little more detail on the things we were able to solve. If we had a traffic jam, we could get them to discharge their employees at certain times of day so that we had a chance to get out of the area. When it came to attracting new industry into the community, I think the whole time I was on that committee, which was several years, I had the opportunity to talk to maybe one or two management types that were considering coming into the community. We had a committee in name, but labor members of that committee weren't utilized to try to attract industry.

Mr. JONES. The need is greater now, John.

Representative HAMILTON. Solving traffic jams is some progress.

Mr. CHAPLIN. We were able to work on problems, but that was about it.

Representative HAMILTON. Thank you very much, gentlemen. Nice of you to be with us. We appreciate it very much.

Our next panel will be the agriculture panel; R. L. Kohls, Hovde professor of agriculture economics and Marion Stackhouse, president of the Indiana Farm Bureau, and Harold Wright, president of the Indiana Farmer's Union.

Gentlemen, we're very happy to have each one of you with us, and we'd like for you to begin with just a few comments on whatever topic you think is appropriate here with regard to the Indiana economy. Mr. Kohls, I'll ask you to begin, if you would. You have a statement which, of course, will be entered into the record in full, as will each of your statements, and I'd like for you to summarize them if you would, please. Mr. Kohls.

## STATEMENT OF R. L. KOHLS, HOVDE PROFESSOR OF AGRICULTURAL ECONOMICS, DEPARTMENT OF ECONOMICS, PURDUE UNIVERSITY, LAFAYETTE, IND.

Mr. KOHLS. Well, my message, both in the short run and in the long run, for the Hoosier agriculture, which is a very important industry in this State, is that reducing our rate of inflation and increasing productivity in our economy are the major conditions that are necessary to a secure progressive, healthy agriculture. I say obtaining these changes are far more important in the immediate future than any minor adjustments in kinds of things that we normally consider agricultural policy. I'd like to support this with three ideas.

One, inflation has not been beneficial to farmer's farm-related income. Historical wisdom always taught us that farmers gained in periods of sharp, significant inflation. That has not been true in our history of this long run significant year-to-year inflationary grind.

The inflation runup of 1973 to 1975 did benefit farmers quite sharply in their $19.7 billion net income of 1967 dollars which was sharply higher than the $12.9 billion they received in the 1967 to 1972 period; however, since that time in the average for 1976 to 1980 in 1967 dollars, again that farm income averaged $16.3 billion, which is a sharp 38 percent below the 1973 period, and even 4 percent below the 1967 to 1972 era.

The general public did receive a bonus during this time because the direct Government payments to agriculture in the 1976 to 1980 period were reduced by about 50 percent from the earlier period, so agriculture recently has been earning a much greater portion of its income from the marketplace. This, I think, is a public gain.

Farm product prices were higher in 1976 to 1980 than they were in 1967 to 1972, but the prices of items that are used in agriculture production were even higher. Production expenditures took 76 percent of the gross farm income in the 1967 to 1972 period. They took 84 percent in the 1976 to 1980 period.

The hard fact is that prices of purchased items needed to produce agricultural products, which are largely produced off the farm, respond much more closely to inflationary pressures than do the things that we sell.

When you present data on the total income per farm the picture is not quite so bleak. We have to recognize, amazingly enough, people living on farms today make more money from their off-farm work than they do from farming. It's also true that there are 700,000 fewer farms, fewer farmers than there were a decade ago. I would suggest that moonlighting income and a declining farm employment are poor substitutes for real agricultural prosperity.

The second point is that inflation bears very unevenly on the agricultural community. Land prices have risen 211 percent from 1969 to 1979, and this increase is twice the rate of inflation. The benefits of such increase in land do accrue to a landowner if he sells out or to his heirs if he dies. However, to new purchasers of land the high carrying costs become part of their inflated costs of production. It's interesting to note that interests costs today account for about 50 percent of our gross farm receipts in 1979 as compared to 6 percent in 1969.

In recent years those who already owned considerable land find it easier to buy more land. Those without land or with small holdings find it difficult. This inflationary spiral in land prices is an increasing contributor to the trend toward fewer and larger farms.

The third point is probably even more significant in our setting, and that is inflation fosters antagonistic relationships between consumers and farm producers. For 20 years after World War II our potential agriculture surpluses dogged the American agricultural scene. A major result was that expenditures for food in relation to consumer income declined steadily all during that time. Americans came to regard cheap, plentiful food, or I would paraphrase a "decent meal," as a right rather than as a blessing.

The 1970's, however, we were in a period of transition. The growing world demand for our food resulted in a sharp growth of our trade and this, along with the poor crop years and chronic significant inflation slowed the relative decline in domestic food prices.

Food prices, however, I would remind us, are not farm prices. In 1980, of the $262 billion that Americans spent for food of our farm origin, about 30 percent was paid for the farm products; the remaining 70 percent went for the other costs of manufacturing and distribution.

Labor costs in these activities alone account for 31 percent of the total, which was greater than the farm product costs themselves. All of these costs are closely tied to inflation as manufacturers and retailers and restaurant operators all, in their own self-interests, attempt to meet their own inflationary problems. Though farm prices are highly variable from year to year, these processing and marketing costs have risen steadily. The results have been that when farm prices decreased food prices went up; when farm prices increased food prices went up still more.

The "cheap food" mind set of the American consumer, I think is real. The press follows changes in food prices avidly. They assign increases as a prime cause of further inflation. High food prices are the result of our inflationary pressures, not a cause. However, in this setting the ability of American agriculture to exploit the growing foreign market will be under continuous public pressure to interfere under the guise of holding food prices down.

Amazingly enough, we've just heard the debate over the imports of foreign cars to help domestic car producers. While we hear that debate, we periodically embargo foreign exports of farm products to protect American food consumers.

The Nation benefits from our substantial foreign exchange earnings and agriculture increasingly depends upon this market. Periodic intervention with trading patterns are not to the benefit of either the Nation or its farmers.

I would simply conclude with a very simple proposition as long as this significant inflation continues, the farm community will be caught between their inflation-connected costs on one hand and their inflation-vulnerable returns on the other. All the little points put aside, I think agriculture's general welfare in the 1980's depends significantly on reducing these inflationary pressures in the general economy.

Representative HAMILTON. Mr. Kohls, we thank you very much for that analysis of the impact of inflation. It was well stated. We turn now to Harold Wright, president of the Indiana Farmer's Union.

## STATEMENT OF HAROLD WRIGHT, PRESIDENT, INDIANA FARMER'S UNION, INDIANAPOLIS, IND.

Mr. WRIGHT. Thank you, Congressman Hamilton. It's a pleasure for me to be here. I understand that my prepared statement will be entered into the record.

Representative HAMILTON. Yes, indeed, it will. The full statement by each one of you will be made part of the record.

Mr. WRIGHT. OK. In the short term I have to agree with Mr. Kohls that our farm outlook is very tumultuous. We here in Indiana continue to hear promises of Washington's concern and caring, while the reality of agriculture policy becomes a volleyball between national security and budget-cutting fever.

Our Indiana farmers are in somewhat of a unique position by the fact that you know if our farm income gets too low, in previous years, anyway, that this has been the case, we could always find off-farm employment to help supplement those low farm prices, so in doing this it's been relatively hard for us to get the real grassroot support for some efforts that we felt needed to be made because, well, if I can get a job somewhere and my income's not really hurting that bad that I don't get involved where, you know, we've always—it's been evident in recent years, anyway, that you can get a bunch of farmers to come out of Kansas or Texas or Oklahoma because out in that area they haven't got these alternatives to go to. If you don't make money raising wheat or beef you know you go broke and, so, I wanted to make that point clear to you for the simple reason, you know, we haven't had substantive grassroot support from Indiana because of our low farm prices that we've been experiencing in recent years as we have in some other States.

Another thing is Mr. Kohls pointed out the fact that our farm population continues to decline. One of our main concerns is it's declining right in the area where we feel it should be stabilizing or even somewhat increasing. The latest census report points out the fact that your small, real small farmers and your large farmers are increasing the population where that middle-size operation, what we call the family farmer, in fact, is still declining. We feel this has been the backbone of our agricultural society and our agricultural economic community and, you know, I guess that I hate to see our society turn to where a major portion of our food and fiber is produced by that part-time person because you know if it gets to that point and he's not making that much money, well, then, he can get out of the production of our foods and fibers and the consuming public won't have that, where our family farmers produce it for an income, they produce it because they feel they have an obligation to society at the same time.

There's couple areas of our agricultural economy picture that aren't too dim in the future, and these are dairy and tobacco, and I might point out that there is no coincidence in the fact that both of these commodities are produced under support programs. Now, I don't know what's going to happen to dairy in the months and years ahead. We were certainly disappointed when the administration and Congress saw fit just recently to not initiate the increases in dairy help. We felt this was the wrong move to make, Congressman Hamilton. We felt even at this time the dairy farmers are receiving less than 80 percent parity and this legislation just brought that support price up to that minimum level, and in our opinion we feel this is going to reduce the dairy farmer's income and force more of the operators out of production. Dairy is one enterprise that you don't get in and out of overnight.

As far as recommendations, I would like to recommend that—and we are going to be recommending that our present farm program be strengthened. We were never overly optimistic about the target price provisions in this farm program. We do feel very strongly about our commodity loan rates. We feel that these loan rates should be placed at a level which thereby would afford the farmers at least to recoup the costs of his production and we feel that this level would be in the neighborhood of 75 percent parity.

We are strong advocates of a reserve program. We feel that his program is vital to not only our agricultural society, but our total society. It not only assures the producer of these commodities, a place to put these excess commodities if he does too good a job, it also assures the consuming public that they will have that commodity if at some point down the road we don't do the job that we should or weather conditions don't cooperate with us and we don't have the crop; it also protects our foreign markets in the fact that it assures out customers overseas that we have that commodity to supply their needs in the years ahead, and, so, with these recommendations I'm happy to be here and more than willing to answer any questions.

Representative HAMILTON. Thank you, Mr. Wright. We're glad to have you.

[The prepared statement of Mr. Wright follows:]

## Prepared Statement of Harold Wright

Chairman Hamilton, members of the subcommittee, ladies and gentlemen, it is my pleasure to appear here today before the Joint Economic Committee's Subcommittee on Economic Goals and Intergovernment Policy.

I plan to address the subject of agriculture and assess its condition and outlook in the coming years.

The short term situation of family agriculture is rather tumultuous. We here in Indiana continue to hear promises of Washington's concern and caring, while the reality of agriculture policy becomes a volleyball between National security and budget cutting fever.

Mr. Chairman, agriculture—family farm agriculture—is not prospering. The farm debt has grown by over $125 billion in the last 20 years.

We in Indiana are in somewhat of a unique position. Indiana farmers, in many cases, have been able to supplement their income with off-farm work or with other family members working. This work, outside the farm sector, has helped Indiana farmers lessen the difficulty of low commodity prices. We have also seen a decline of the middle size farmer—the heart of agriculture. In the most recent census released by the Department of Agriculture the part-time farmer grows in number as does the large corporate oriented farmer, but the true family farmer declines.

We have seen, among some of the farmers who have relied on outside incomes for survival, a feeling of complacency. The feeling that they are making it on two incomes so satisfaction sets in. Farmer's Union finds it difficult to get farmer support on some basic problems from these farmers. The facts are that the foundation of farming is crumbling. Pork producers are losing money. Cattle feeders are selling at a loss. And grain prices have not allowed producers to recoup the increased cost of production. Ladies and gentlemen, we are losing farmers in Indiana because parity stands at only 60 percent.

I suggest to you that the income capabilities for farmers are crumbling with the present economic situation. Two-income dependent farmers and their families will have difficulty in finding part-time and full-time jobs, as more skilled workers compete and businesses are forced to cut back. Farmers are learning, very quickly, the reality of economic agriculture conditions in Indiana with only farm income as support.

Over the few years we have had some bright spots in Indiana agriculture. Our dairy farmers and tobacco farmers have achieved a semblance of equitable income. By coincidence, both of these commodities were operated under support programs. These programs were not handouts but helped assure our consumer population of an adequate supply at a reasonable cost.

The recent suspending of the dairy price adjustment has saved the government money, but at what cost? The net income of dairy farmers will be hurt badly, causing the farmer to possibly go out of business. Supplies to the consuming public may not be a sure thing in the months ahead and the trend of Federal support for the farmers to grow larger and more corporate in nature continues.

Congressman Hamilton, you remember well the Government's support program for sugar of a few years ago. The program was dropped and what have the constituents in your district seen the price and availability of sugar do? We do not feel the public prefers rollercoaster prices and iffy availability, consistent prices and assured quantities are wanted and can be achieved under supply management programs.

Our long-term problems can be described under only one word—atmosphere. The atmosphere of agriculture is terrible.

Our society has refused to accept the need for a food policy which supports the purpose of family farm agriculture. This policy would assure stable pricing and adequate supplies of food. Our inaction has helped create a policy which encourages nonfarm interests to pressure agriculture. We have seen farmland prices inflate, partly because corporations, investors, and pension funds use land as a good tax shelter.

Energy issues are discussed—and forgotten is the farmer and how energy-fuel intensive his business has become. Has society forgotten that we must fuel our trucks and tractors? We must use large quantities of electricity and natural gas to regulate our llvestock operations, and that most fertilizer—a mainstay in our operation—is a petroleum product. Our energy prices on the farm have gone up 350 percent in the last 14 years. Our marketplace has not adapted. The prices we receive cause us to question continuation. Prosperity has become a token word.

Society may be ignoring something that cannot be "corrected" in later years. We are being warned that our land, especially farmland, is vanishing. We see over

2,000 acres of land paved over in Elkhart County here in Indiana each year, and at least that many acres in Hamilton County. Reports tell us that our land is literally blowing away because of poor land usage and conservation practices. Our country's refusal to do something now will only lead to future generations having to face not only a lack of food but the reality that the land is not available to rectify the situation. We commend the national agriculture land study, recently completed by USDA, and agree with their conclusions that the government at all levels must become involved to assure land to produce food.

We have an opportunity before us to begin to change this agricultural atmosphere. The changes, I feel, would at the same time help prevent and correct the short- and long-term problems.

We must first, as a nation, accept a national posture, an agreement if you will, of agriculture's role in our country. We must realize the role and importance of food, and the people who produce it, and the part they play in our society's makeup. The effect family farmers have on a food assurance, as well as the community value that exists, makes it imperative that farming in the small-medium size range be encouraged.

We have an opportunity before us with the 1981 farm bill This bill should be a stamp. A stamp of approval for family farm agriculture.

Society wants and needs food and fiber. But an economic system, as it is today, which rewards farmers because of short supplies when abundance is necessary and wanted by the consuming public is wrong! This hurts agriculture—this hurts the public. Government must play a role—not becoming involved would be criminal.

We recommend: Commodity loan rates set at no lower than 75 percent of parity. This offers the farmers the opportunity to recoup part of their cost of production.

A farmer-controlled reserve program is a necessity. This assures quantity to the public and is a valuable tool for the farmer. The reserve program also helps us offer all of our foreign customers an assurance in long-term agreements and in the development of future contracts. The reserve program is a solid foundation for stable prices, and with proper release and call levels a profitable program for farmers.

We ask that the Federal Government delineate information and guidelines to State governments, so as to emphasize the need to ban nonfarm, large corporate and foreign ownership of farmland.

We ask that you take the profit out of speculative land transactions by changing Federal tax laws which encourage investments for write-off and tax shelter purposes.

Finally, we ask that you consider a national food policy for our country. The free enterprise agriculture system has not and is not working. Farmers who profit are doing so at the expense of other farmers.

I challenge the notion that Federal involvement is all bad. A national food policy, where Government helps farmers prosper, consumers receive their wants and adequate supplies is a role that is acceptable and necessary. A healthy agriculture is our government's greatest weapon. It should be protected and cared for. The atmosphere must change and the opportunity lies before us.

Thank you.

Representative HAMILTON. Mr. Stackhouse, we are glad to have you. Please proceed.

## STATEMENT OF MARION STACKHOUSE, PRESIDENT, INDIANA FARM BUREAU, INC., INDIANAPOLIS, IND.

Mr. STACKHOUSE. Thank you, Congressman. The Indiana Farm Bureau, the largest farm organization, appreciates this opportunity to participate and present testimony on the strengths and weaknesses of the agricultural sector in Indiana's economy, and I took that from your letter that you wanted both strengths and weaknesses.

Representative HAMILTON. Yes, I do.

Mr. STACKHOUSE. First the strengths. Our farms are mostly family farms. They average 193 acres and had an average investment of

$307,689 in land and buildings alone according to the 1978 census. Of course, that's a few years back, but at the same time, 88 percent of the operators owned all or part of the farms they operated; however, many Indiana farmers are larger than this basis.

Indiana is located in one of the most productive spots in the United States, which gives us one of the better climates and rainfall patterns, and I think last year we really came out on that compared to Western States who really hurt. We may have areas in the State which are short of moisture at times, but in general Indiana has been able to have good water resources. Some of the Indiana land which is vulnerable to drought is coming under irrigation.

Another plus is our State government, which, for the most part, restrains from farm regulation and does not interfere in our production of food and fiber. Indiana also has a political climate favorable to efficient farming. The general nature of Hoosiers lends to a conservative climate relatively free of consumer agitation and turmoil, and some of us who have seen over the periods, this is important. You can't have that kind of agitation and have a very good economy.

We are blessed with rich soil and generally favorable weather conditions which are a plus in growing bountiful crops. This is shown by the fact that Indiana ranks 38th in land size of all the States but is 8th in cash receipts from farm marketings.

Another strength of Indiana is our close proximity to markets. We are close to many consumers in the central part of the United States and we have reasonable access to the east coast and south gulf.

Our normal grain market is strong with considerable flexibility compared with other States, and I don't have it in the testimony, but we've moved a lot of grain into the Southeast, Georgia, Alabama, poultry industry, and we're able to move it in good ways. We have a transportation advantage in proximity to markets. Our ability to move grain down the Ohio River, then to the Mississippi, avoiding the shipping bottleneck caused by lock repair at Alton, Ill., is a distinct advantage at this time.

The location in our State of such corn and soybean processing plants as General Mills, Busch, Staley and Central Soya, and the prospect of an additional one built by French interests utilizing corn for food items, are in our favor.

Indiana encourages additional farm product utilization plants such as those and entertains the possibility of the addition of others, such as fuel alcohol plants and distilleries.

Indiana is the home for exceptional agricultural technology and research resources, and I name Purdue University and Eli Lilly and Co., and others which encourage farmers to reinvest their land, seed, fertilizer, herbicides, time and labor in new crops. They have to be optimists sometimes, as you and I know.

Our energy resources are diversified and include coal-fired generators, systems, some farm alcohol plants and the Marble Hill nuclear new solar systems, some farm alcohol plants and the Marble Hill nuclear generator.

But, above all, Hoosiers encourage close cooperation between all segments of the agricultural industry.

Now, for some of the weaknesses in the agricultural sector of Indiana's economy. We are concerned that our livestock production and meat packing are trending downward. This industry is moving westward due, in part, to the erratic movements by the Federal Government which directly affect grain marketing.

The loss of grain markets abroad, including the embargo with Russia, is hurting not only the Indiana grain farmer, but also the livestock producers, for fluctuating grain prices are his worst enemy.

We need to keep the world markets open, prevent embargoes and develop more markets through private trade, remembering that the farmer is the only businessman who cannot set the price for what he sells.

The problems of our red meat industry are abetted by the Government, which has tried to change the human diet by setting forth diet guidelines and by consumer attitudes. We urge keeping the grain trade out of the hands of Government and letting the law of supply and demand rule.

Also, on the food processing side, our biggest tomato packer is closing two plants this season due to economic reasons.

Indiana farm input costs, including fuel, seed, fertilizer, and chemicals have escalated rapidly, partly due to Federal regulations, and aided by increased costs for energy, machinery, labor, and taxes.

Inflation and its impact on interest rates have brought a new cost into farming which farmers have not known for very many years. With the increased interest costs and the high amounts of money that farmers need in capital investment, these costs have overshadowed any margins on most farm products.

This year, with the beef industry loss as much as $120 per animal and hogs at one time selling for a $10 loss, and I'd say a $10 loss per 100, has brought credit pressures on our farmers. If Government taxation spending is going to further the fires of inflation, then new levels of farm prices will have to be forthcoming if we are not going to bankrupt the farmer. We still feel that the market system will deliver the greatest earning power to the farmer and bring the needed supply of consumer goods at the cheapest cost.

Expediency is needed in straightening out the regulatory mess, including doing away with unnecessary regulations and preventing widespread duplication in various agencies of the Federal Government.

Representative HAMILTON. Thank you, Mr. Stackhouse very much, for an excellent statement. Let me just bring up several matters that you referred to. One of the strengths, it seems to me, of the agricultural sector of the economy has been our ability to transfer the product of our research and technology in agriculture to the farmer smoothly and quickly, and we have not, it seems to me been able to achieve that as well in the nonagricultural sector, manufacturing. Now, is my observation right, and if it's right, why is it that you solved that problem better than they have in the manufacturing and high technology areas?

Mr. KOHLS. Well, I have 12 years' experience as dean of the agricultural operation at Purdue. I think the statement is true. The statement has a long history. Very early there was a partnership established between the State and the Federal Government—and I emphasize partnership—which was both in the finding of new knowledge and in its dissemination. That was the keystone to the so-called land grant institution, and I listened with interest to your prior academicians.

That particular model was never duplicated in the business and engineering schools of my university and others; They lack the extension arm.

These people—Mr. Stackhouse and Mr. Wright were my bosses for 12 years. I say that in a real sense. There was a partnership that grew up between research and its extension and its public which never developed in any other part of academia. The rest of academia tends to isolate themselves. It's not their fault, it's just the nature of the group.

Now, one of the things that concerns me is that during the last serveral years of my administration, the Federal Government was seeking to destroy that partnership. That partnership was a very interesting one. The State will identify its own problems. In the last 5, 6, or 7 years, the Federal Government, especially in academia, has decided that it should identify the problems. Consequently, even in your own agricultural experiment station you have an inordinate amount of effort struggling to find out how can we capture the Federal dollar. The problem involved may or may not be germane to Indiana. These special grants from the Federal Government are destroying the partnership established by the Hatch Act.

Representative HAMILTON. Are you satisfied with the level of research in agriculture today? Do you think we're putting enough of our resources into that area?

Mr. KOHLS. In light of my statement, I think that all things probably need to be tightened a bit. I could be satisfied with a lower level of Federal support if it could be administered without all of the redtape and administered to solve the problems of Hoosier agriculture as they were determined by our citizens. But increasingly your experiment station and your extension service has had less and less freedom to respond to local needs as the funding basis shifts.

You probably know the Indiana support of both research and extension is far greater than the Federal Government. Yet it is the Federal Government tail that wags the dog in this area. I would be irresponsible if I say you should double or triple the research expenditures. But there are changes that could be made that could make it more effective and responsive to the local situation. These people can speak to that. They're the recipients of the efforts.

Representative HAMILTON. Do you have any comments on this, Mr. Stackhouse?

Mr. STACKHOUSE. Of course, we could be here until 1 p.m. on it, but you don't want that much detail, but I agree with Mr. Kohls. I think part of the reason this worked in agriculture is because it's probably more competitive. We're both farmers, we both produce for the American consumer. We have to compete on the market with the markets we get with the best technology we get or we don't pay our bills and somebody sells us out.

Now, I don't think maybe that industry has been quite as open, you see, because they've had more regulation, more things to do. If they can make a profit, nobody worried about it, so I think they didn't pay attention to the high competitive game that we've been playing. I think that's really where it's at. We've been in a very highly competitive—can't work otherwise. If you bring the other system to agriculture it'd probably destroy it, so that's one of them.

The other thing, I think I agree with Mr. Kohls that we've had a change in the attitude of research and who's going to call the shots. I think that's why some of us worked very hard to get a new research lab at Purdue because, frankly, if we'd have had somebody who might have understood the impact of nitrates on pork instead of MIT, the pork people might not have lost a million dollars. You see what I'm trying to say? And, so who does this and who directs it and where it comes from does make a difference to us. That's why some of us don't like—and we need new and better facilities so we can have those grants out of the Federal, and the university understood.

We've had some universities that bid off soybean research because they submitted the lowest grant bid and then after they got it they didn't know what to do with it because they didn't know anything about soybeans. So this is what you get caught up in in this grant bid thing that's involved, so that's only touching two areas of the whole thing, but I think Mr. Kohls had his finger on it when he said we had a long-time partnership of people understanding the system and using the system to the benefit of society. I think the consumer has been the one who's really gained in this because we've had cheaper food.

Representative HAMILTON. Mr. Stackhouse, may I ask you about a statement in your statement. You say when you're referring to the livestock production and meat packing industries moving westward due, in part, to the erratic movements by the Federal Government which directly affected grain marketing; can you spell that out for me a little bit? I'm not sure I understand.

Mr. STACKHOUSE. Well, I think we've seen quite a fluctuation in the spring marketing and some of our people here, of course, have been pretty close to getting it into the world market. We ship a lot of our grain into the world market, so these farmers say why should I bother with hogs? Then you get into the situation of the livestock numbers not being here and the packer has to go west. They look at these numbers when they start placing plants, where we're going to go, and this is why I think it's happening. I expect the beef industry has been hit probably harder even than the hogs because it's getting more difficult to find a packer to kill beef. We have some, but it's getting more difficult. Let me add that particularly when you find the Armour Co. is part of Greyhound now, saying, well, we're looking down on our meat because it hasn't made the rate of return. We find the best market in Swift. The old Swift plant is saying the same thing, we're going to get into chemicals, our plants are for sale.

This bothers us because somebody has to kill this livestock. It's a trend, and I merely point it out to you because it'll be one that agriculture will have to solve. It's a very difficult one because you're talking about $50 million-plus when you open a plant.

Representative HAMILTON. None of you are very enthusiastic about the embargo, I trust?

Mr. STACKHOUSE. No.

Mr. WRIGHT. No.

Mr. KOHLS. Well, I think that has to be correct, but I think at the time it was made one has to give all credit to the agriculture community and they basically said if this was important for national security they would pay the price, but then it became quite obvious that nobody else was going to cooperate in the embargo and they got a little upset that they were the only one.

Mr. STACKHOUSE. Let me pick that up a little bit because I think it's important. I think the people have an idea that if we can trap some of this food in the United States we got it cheap, and I merely state to you we're going to cut out efficiency. We can't keep cutting back your plant without becoming more inefficient. I think the consuming public is on a myth on this one that they're—probably if this happens you'll have the cheap food immediately and then it'll get expensive because you become inefficient. I think the grain embargo getting off is pretty important to the consuming public. They have to get it off, not only from our standpoint, but I think that——

Representative HAMILTON. Do you agree with that, Mr. Wright?

Mr. WRIGHT. To a point. I think one of the things the grain embargo did, Lee, was to point out the fact that I think a lot of people have believed that, maybe not wanted to admit for a long time, that food will be used as a tool of foreign diplomacy, you know, whether we like it or not.

It has been in the past. If you look over the history of our country in the last 30, 40 years, our Food for Peace program, we didn't send Food for Peace to our enemies, but now we're in the food—the farm products have greatly expanded in foreign markets and we hope they continue to expand and so, therefore, you know, this is a threat that's continually over the heads of the farmers if we're adding in China and developing a market for our soybeans or our feed grains, you know. Ten years down the road that market could be lost if something happens in international affairs and because of foreign diplomacy this market could be lost.

I might want to make one comment on our educational programs, and I'll have to agree with Mr. Kohls that our agricultural educational system in this country has been the envy of the world and the type of research and the education programs and the extension service to dispense this information and this has certainly been a great asset to our agriculture, but I think I've got to point out the fact that the clientele these people have been working with, our family farmers have been real receptive to this type of information, and I think that's one of the things that's made it work as well as it has.

Representative HAMILTON. Let me ask about this family farm observation you made, Mr. Wright, in your statement. I'm trying to locate it now, but you said, I think, that the family farmer is declining in number.

Mr. WRIGHT. That's right.

Representative HAMILTON. And we're getting more part-time farmers and more large, corporate type farmers. Is that the impression you other gentlemen have, Mr. Kohls, Mr. Stackhouse? Do you feel that we have a real decline in the family farmer in our State of Indiana?

Mr. KOHLS. The basic issue here is that family farmer means different things to different people. If you just want to say who owns the farm, we're still "family farmers." I think both Harold and Marion and I would agree what we're really talking about here is the heavy inroad on what we would call the middle-sized family farm. Even our giant farms often are conglomerates owned by the family, so it's really this middle-sized group which I think we would all agree that is hardest hit. The lower sized group has income to help it operate. The bigger group has been highly leveraged. It's in this middle area where the decline is coming and that is the term most generally associated with the "family farm."

Mr. WRIGHT. If I remember correctly, the last census reported there were more part-time farmers than there was full-time farmers in the Nation now, and so I think that this trend is continuing and I think it's that midsize farm, Congressman, that's been willing to adopt this new technology. You asked Mr. Kohls about why hasn't industry and some other segments of our society been as willing to adapt to some of this new technology as our farming community. In my opinion it's been because this middle-size farmer, the family farmer, he owned the farm, he wanted to improve it, and I think when you look at a lot of the new technology that the farmer has adopted in the last 30 to 40 years, economically at the time that he adopted it it wasn't proved that it was going to make him any money, but he adopted it because it was a challenge. I think this is part of the human nature, part of human beings, really.

We like to accept challenges. Our space activity now, I approve of it, and if you that down with a pencil and paper there's probably no way you could figure out how you're going to make money at it, but it's a challenge I think we need to face, and that's what the family farmer has done over the years. Marion pointed out how the livestock people are losing money. Industry wouldn't invest $150,000 to $500,000 in a hog operation unless they can sit down with pencil and paper and show how they're going to recoup that cost in 5 years. Now, the farmer hasn't been doing this, and, so, this is one of the problems that he 's got himself into now, but our society has benefited from it, but he's adopted this new technology. He can raise more pigs in a shorter period of time, and the dairy cow produces more milk and so on. So, I think this is one of the reasons we need to encourge this middle-size farmer because he's doing the job we want done.

Mr. STACKHOUSE. Mr. Chairman, let me comment, two things. I think one of the reasons this happens, I know some people in Wyoming and other places with cow-calf operations and they're paying more per day interest now on their cattle than the cost to feed them. These were the impacts that we weren't prepared for because until interest rates shot up on this, you see, this didn't hit them as hard. These are the impacts, and when I say the inflation and interest are the real culprit in this, and this gets tranferred into the cost of land, cost of resources, and it multiplies. We're going to have to have some new plateaus of beef prices or we're not going to have the beef. I think the consuming public is looking to eating chicken and not the beef if that's what it takes.

Now, back to the farm thing, yes, I agree we're going to take them out of the middle. I think it's a cycling thing that will happen and you can't stop it, can't stop it if you wanted to because, Mr. Wright in my book he's bigger than I am, see.

I know he's got more acres, so he's there. My son now is trying to buy a farm to get bigger in our operation, so these people in the middle are trying to move up to this next step, and when you do there is only so much land. It has to come off of some place, so it comes out of the middle sector. As any farmer adds one acre it's got to come out of the middle sector. Then you find a lot of the larger farms with a fellow who wants to put his children out and have some animals and get out and have the free air and be a farmer, he calls himself. Even though he has a job—and I fit that category, I work all the time full time, I go home to a farm at night. Why, because I prefer it to Indianapolis living. You can't stop that because he'll take his nonfarm income and his investment income, whatever the income, and get into that thing, and as he gets into small, he'll grow into middle size and then if he's got money he'll go to large. It's a thing you couldn't stop if you wanted to because it's a natural thing, you see what I'm saying?

Representative HAMILTON. Built into the structure.

Mr. STACKHOUSE. It's built into the structure.

Mr. KOHLS. Except I would have to add the Government has not been even-handed. The Government has aided and abetted this process by the way in that the support structure is orientated to how much you have to sell, by its tax laws; and finally in this inflationary issue it hasn't been even-handed. I would agree with Mr. Pearlberg that you might not reverse it. But at least we could take out the uneven-handedness and let the farmers operate in the area they wish.

Mr. STACKHOUSE. I want to raise one other thing. It's not a part of anything here except that you see a farmer who gets a four-wheel tractor, so his neighbor wants one. It's this old cycle. The tractor is out here and he wants it and so he wants more land. He can't afford it until he gets more land, and this is the economic pressures there, but you might as well admit it's out there. It isn't going away and the guy wants a bigger one.

Representative HAMILTON. One other thing I'd like you to comment on, and that's this business of farmland. Do any of you have a sense that we're losing too much farmland in Indiana for development purposes?

Mr. WRIGHT. I think we are.

Representative HAMILTON. How serious a problem is it?

Mr. WRIGHT. I think it's a very serious problem now. You've got your cities expanding, just look around Indianapolis, about any of your large metropolitan areas, without any planning whatsoever. What we all realize is that our urban areas probably are going to have to expand, but why couldn't we encourage them to expand and not on our prime farmland. I couldn't go into Clayton County and say, now, look Frankfort couldn't expand, but you notice Frankfort has expanded substantially in the last 15 to 20 years, and they're taking some very good farmland. There are areas of the State where we can allow urban expansion, but on our prime farmland I don't think we should do it.

Representative HAMILTON. What I'm trying to do, is that a problem we ought to worry about in the State? Do you think it is?

Mr. WRIGHT. Yes, I think it is.

Mr. KOHLS. I think it's a problem the State ought to worry about, but not you in the Federal Government.

Mr. STACKHOUSE. I think you'd mess it up worse than you would help.

Mr. WRIGHT. I would agree with what Mr. Kohls said, Congressman, to the point that if our State government doesn't do it, then I think it should be the Federal Government's responsibility. I've been involved in the legislative activity for several years now and I think in a lot of instances our Federal Government hasn't wanted to jump into some area, but it wasn't being done on the local or State level, so they felt someone should do it and our Federal Government did it.

Mr. STACKHOUSE. I guess I agree that it's a problem that's going to be there, but I don't think the economics will turn it around today because you've got people who are saying I can buy that land, that's where I want to go, I have road access, and the question then comes how strong? I'm just going to say I think you're ahead of the public yet in that the public is saying we want prime land bad enough to go through these other things. Yes, it's a problem, we're concious of it, we work on it every time, Mr. Wright's organization works at it, but we don't find it arousing the public and, of course, it always comes too late. It isn't something that we're going to quit looking at, but today we don't have the public understanding or the support tax dollars and, so, we're together, I think, in what our thinking is. We're concerned about it, but you can't tell a man he can't sell his land for the highest dollar, and that's still the real estate market.

Representative HAMILTON. I'm under instructions to cut this off at 12 noon and I'm going to do that right now. Thank you very much for your participation. I'd enjoy talking with you a good bit longer, but you've been helpful and constructive and we thank you very much. That concludes the hearing. The subcommittee is adjourned.

[Whereupon, at 12:10 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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