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## Indiana Is Falling Behind

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Issue Brief**

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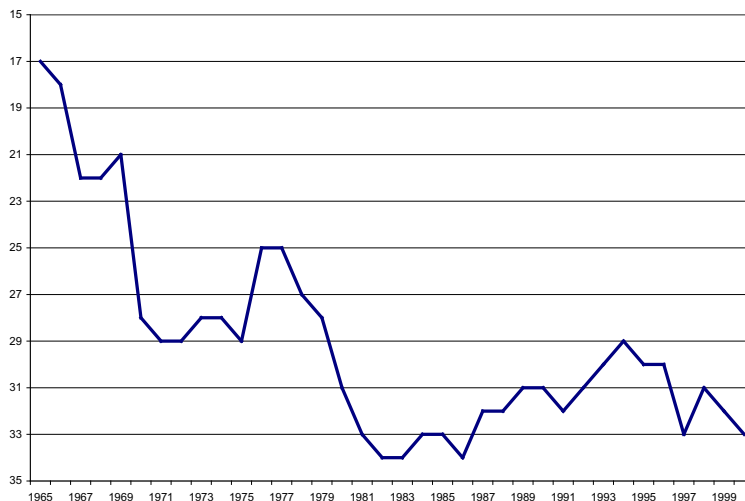
In a state where basketball is king, everyone knows that keeping score is fundamental to the competitive process. This Indiana Fiscal Policy Issue Brief looks at benchmarks of state economic vitality – per capita personal income, per capita state and local taxes, and per capita state and local governmental spending – and scores Indiana’s performance on these measures.

In 1965, Indiana ranked 17<sup>th</sup> among the 50 states and the District of Columbia in per capita

average. By 2000, Indiana’s per capita personal income had fallen to 91.1% of the national average.

On the other side of the coin, Colorado, Georgia, Minnesota, New Hampshire, and Virginia all improved their rank by at least 13 places over the same period. All five of these states ranked below Indiana in 1965 and all are now ranked in the top 15, except Georgia, now 24<sup>th</sup>. Other states that have improved by more than 10 places are North Carolina (43<sup>rd</sup> to 32<sup>nd</sup>) and Texas (36<sup>th</sup> to 25<sup>th</sup>). Both of these states are now ranked ahead of Indiana.

**Chart 1**  
**Indiana’s Per Capita Personal Income Rank, 1965-2000**



personal income. By 2000, Indiana’s per capita personal income ranking had slipped to 33<sup>rd</sup> place. Indiana’s fall in rank of sixteen spots from 1965 to 2000 was the largest drop of any state in the nation.

Over that period, only one other state, Montana, saw its per capita personal income rank fall as far – from 31<sup>st</sup> to 47<sup>th</sup>. Iowa, nearly duplicating Indiana’s performance, had its rank fall 15 places, from 19<sup>th</sup> to 34<sup>th</sup>. The other states whose rank fell by more than 10 places were all “western” states: Alaska, Hawaii, Idaho, and Utah.

Compared with the nation as a whole, Indiana’s decline is startling. In 1965, Indiana’s per capita personal income was 99.9% of the national

Indiana has not performed well, even when compared with our neighbors, who face similar economic conditions. In 1965, Indiana (at 17<sup>th</sup>) was only a few places behind its industrial neighbors of Illinois (8<sup>th</sup>), Michigan (10<sup>th</sup>), and Ohio (15<sup>th</sup>). In 2000, while all three states’ rank had fallen, they all were still essentially in the top twenty—Illinois, 11<sup>th</sup>; Michigan, 19<sup>th</sup>; and Ohio, 21<sup>st</sup>—while Indiana languished in 33<sup>rd</sup>.

Although Indiana’s position relative to the rest of the country has suffered in the last 35 years, personal income has increased. For the nation as a whole, the per capita personal income annual average growth rate for the period was 6.7%. For Indiana, the average annual increase over the same period was only 6.4%. In more competitive states, such as North Carolina and Minnesota, annual growth rates were 7.3% and 7.0 %, respectively.

State	Rank 1965	Rank 2000	Relative Decline
Indiana	17	33	-16
Montana	31	47	-16
Iowa	19	34	-15
Utah	33	45	-12
Hawaii	11	23	-12
Idaho	30	42	-12

Source: Bureau of Economic Analysis; IFPI Calculations

State	Rank 1965	Rank 2000	Relative Improvement
New Hampshire	26	7	19
Georgia	41	24	17
Virginia	29	14	15
Colorado	21	8	13
Minnesota	23	10	13

Source: Bureau of Economic Analysis; IFPI Calculations

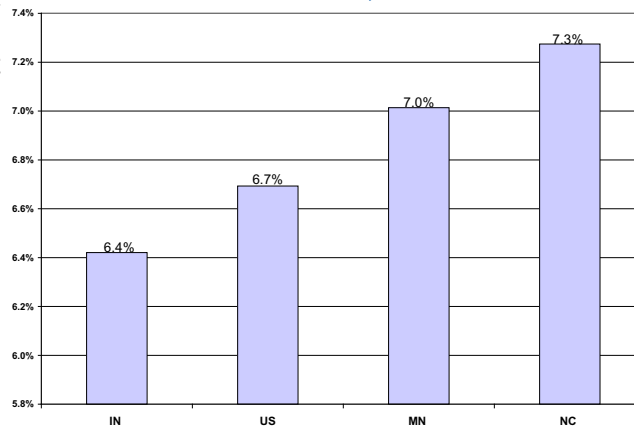
1965 to 2000 in Indiana ranks 40<sup>th</sup>. On the Corporation for Enterprise Development's Business Vitality index, Indiana received a grade of D, which most would consider failing in a competitive context. In broader measures, such as Site Selection magazine's "Quality of Life" index, for instance, Indiana received a "32" ranking among the 50 states. Clearly, the overall consistency found in the majority of other economic vitality and quality of life measures confirm Indiana's per capita personal income rankings as representative of the state's condition—the state has not performed, and is not now performing, well.

### What do the Rankings Mean?

"Personal income" is a measure of economic activity that includes salaries and wages, proprietor's income, and government transfer payments to individuals. The U.S. Department of Commerce Bureau of Economic Analysis (BEA) reports the data, which is comparable across states, metropolitan statistical areas, and counties. "Per capita" personal income allows for comparison across jurisdictions, adjusting for the effects of population change over time.

Per capita personal income is also used within many more comprehensive comparisons of state and regional economies. Unfortunately, when evaluated on many of these broader sets of criteria, Indiana also appears uncompetitive. Average annual percentage job growth from

**Chart 2**  
**Select State and US Per Capita Personal Income Average Annual Growth Rate, 1965-2000**



### Indiana Cities' Personal Income Rankings

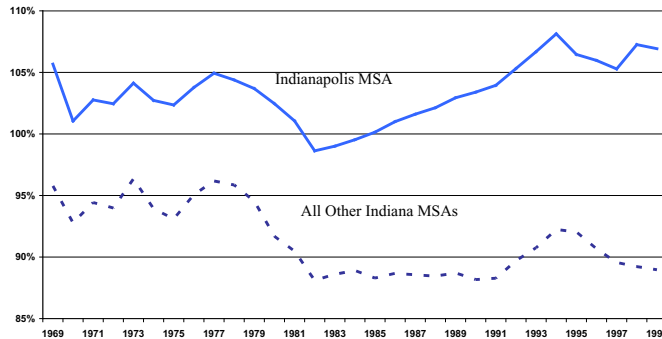
Indiana's Metropolitan Statistical Areas (MSAs), with the exception of Indianapolis, all lost ground in per capita personal income as a percent of the nation from 1969 to 1999. Compared to the U.S. average, only Indianapolis had per capita personal income above it at 106.9%, while Fort Wayne was the nearest competitor at 95.8%. Taken as a whole, Indiana cities outside of Indianapolis, combined for an average of 89% of the national mark.

Three top performing cities (Austin, Raleigh-Durham, and Minneapolis-St. Paul) have experienced remarkable growth over the past 30 years, growing at rates of 7.7%, 7.5% and 6.9%, respectively. While Indianapolis grew at an average annual rate of 6.7%, these cities

State	% Emp Growth 65-00	Quality of Life 2001	Business Vitality 2001
Georgia	8	9	A
North Carolina	14	17	C
<b>Indiana</b>	<b>40</b>	<b>32</b>	<b>D</b>
Minnesota	21	32	A
Illinois	46	37	B
Kentucky	25	37	C
Ohio	43	45	C
Michigan	42	49	C

Source: Bureau of Economic Analysis; IFPI Calculations

**Chart 3**  
**Indianapolis and All Other Indiana MSAs Per Capita Personal Income as a Percent of US, 1969-1999**



Source: Bureau of Economic Analysis; IFPI Calculations

surpassed our growth by significant margins. Austin's rate, for example, was 14% faster than central Indiana's.

### Is Indiana a "High Tax" State?

While the rankings indicate that our state is certainly not the "best" place to work and live, Indiana, like many other states, faces very real

	1967	1972	1999
Per Capita Taxes	29	29	32
As % of Per Capita Personal Income	28	29	38
Direct General Expenditures	43	41	35
As % of Per Capita Personal Income	35	38	43

Source: US Census Bureau; IFPI Calculations

limitations on our ability to affect our economic well-being. One area over which states do have a certain amount of control is fiscal policy—how much states tax and spend. Indiana ranks low in both tax burden and spending levels, and has remained so over the last 35 years.

Per capita taxes are not a good measure of tax burden. Wealthier states, like Illinois and Maryland [see table 5], rank high in per capita taxes, yet because of their high personal income, their tax burden—measured more correctly by computing taxes as a percent of personal income—are relatively lower. Indiana has an effective tax rate on per capita

personal income nearly the same as Illinois and Maryland, but our per capita taxes in dollars are much lower.

If Indiana's per capita personal income, in 2000, had remained at its 1965 ranking of 17<sup>th</sup>, the state would have collected nearly \$1.5 billion more in annual state and local taxes.

### Why Rankings Matter

Indiana, like all Midwestern states, has experienced the impact of a national economy moving away from manufacturing. Nevertheless, Indiana has retained its affinity for manufacturing jobs. As demonstrated in the 1998 Indiana Fiscal Policy Institute report on Indiana's labor force, Indiana "is significantly behind its Midwest neighbors in jobs in two high-paying occupational categories: Professional and Specialty occupations and Executive, Administrative, and Managerial occupations." The analysis also found that the manufacturing jobs upon which Indiana is reliant are not only average in pay, but also the slowest growing during the 1990's<sup>i</sup>. In 2000, manufacturing jobs still comprised nearly 23% of all jobs in Indiana, the highest percentage in the nation.

The economic shifts occurring over the last 35 years in the U.S. have clearly disadvantaged Indiana as reflected in the per capita personal income rankings. According to the State New Economy Index, "...while history shapes the

Total Taxes-State and Local	"High Tax"		
	Illinois	Maryland	Indiana
Per Capita	3,130.7	3,201.8	2,620.9
Rank	15	12	32
Total Taxes	43	41	35
As % of Personal Income	10.1%	9.9%	10.0%
Rank	33	40	38
Per Capita	30,852.5	32,329.3	26,135.7
Rank	9	6	32

Source: Bureau of Economic Analysis; US Census Bureau; IFPI Calculations

<sup>i</sup> "The Evolution of Indiana's Labor Force 1968-1997, A Comparative Analysis," December, 1998. Indiana Fiscal Policy Institute.

hand a state is dealt, public policy determines how that hand is played.”<sup>ii</sup>

*“Iowa ranks at the bottom third of states in per capita income...we need better paid lowans.”  
– Iowa Gov. Vilsack*

Governors in Iowa, Kentucky, Maine, New Mexico and Oklahoma highlight goals of increasing per capita personal income as some of their top priorities. Oklahoma and Kentucky have very specific goals: to equal the national average per capita. Governor Vilsack of Iowa is more plain-spoken, “Iowa ranks at the bottom third of states in per capita income...we need better paid lowans.”<sup>iii</sup> If any state needs an objective on which to focus its economic development efforts, Indiana, which has fallen as far as any other state in the past 35 years, needs one.

States across the nation are monitoring their economic vitality and Governors are calling for action. Keeping score, and, when the score indicates, responding to changes and trends is paramount to maintaining and improving Indiana’s quality of life. That national—and international—economy has changed fundamentally in the past 40 years. Indiana—by the standard of our citizens’ incomes and wealth—has not.

We recommend that state policy makers, both public and private, make every effort to reverse this troubling trend. Addressing issues such as 1) restructuring the state’s tax system, 2) meeting the demand for quality education for our children, and 3) working to retain our college graduates as an integral part of a 21<sup>st</sup> century workforce are paramount to Indiana’s future.

<sup>ii</sup> Atkinson, Robert A. Court, Randolph H. Ward, Joseph W. “The State New Economy Index, Benchmarking Economic Transformation in the States,” Progressive Policy Institute, July 1999.

<sup>iii</sup> Iowa Governor Thomas J. Vilsack, State of the State speech, January 11, 2000.

The scoreboard shows that Indiana has fallen behind. The clock is running. We need action to ensure that Indiana’s economic performance relative to the rest of the nation becomes a model of success to be followed rather than an example of mediocrity and stagnation to be avoided.

*The Indiana Fiscal Policy Institute (IFPI), formed in 1987, is a private non-profit governmental research organization. It is the only independent statewide source of continuing research into the impact of state taxing and spending policies in Indiana. The IFPI is privately supported by a variety of organizations, corporations, associations, and individuals in Indiana and surrounding states. Contributions to the IFPI are fully deductible under section 501 (c)(3) of the Internal Revenue Code.*