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# Footloose Jobs & URBANIZATION

## Recent History and Policy Considerations for Indiana

**Michael J. Hicks, PhD & David Terrell, MBA**

This policy brief outlines the recent history of footloose and non-footloose jobs in Indiana and in our workforce regions. We describe recent economic development policy at the state, regional, and local levels and suggest future models for economic development policy in Indiana.



## Over the Past 50 Years...



Clear decline in the number of footloose jobs.



Growth of more than 90 million non-footloose jobs.



Employment growth confined exclusively to larger urban counties, with significant job losses in rural and mid-sized towns.

# Introduction

Over the past 50 years, the United States has seen both decline in the number of footloose jobs (occupations that produce goods for sale outside the local region) and growth of more than 90 million non-footloose jobs (occupations that create goods and services for local consumption). Employment growth in this time period has been confined exclusively to larger urban counties, with significant job losses in rural and mid-sized towns.

Indiana offers a compelling example of these changes. The causes for this dramatic change in the employment mix are relatively straightforward. Over the past half-century, household spending has shifted from roughly 70 percent allocated to the purchase of goods to less than 30 percent today. The production of goods is mostly a footloose enterprise, while the production of services is predominately a local enterprise and is not footloose.

Moreover, the production of goods has enjoyed significant productivity gains. Per worker production in manufactured goods has more than doubled since 1970. In 1970, each million dollars of capital investment in manufacturing was accompanied by 15 new employees. By 2014, the same investment (in inflation-adjusted terms) brought roughly three new workers to a plant.

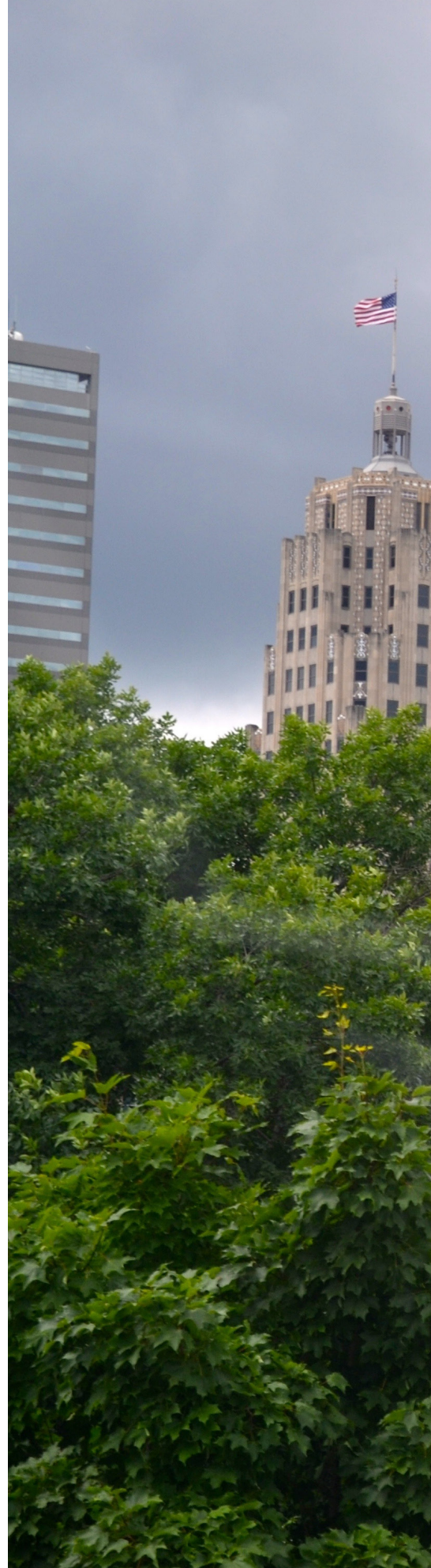
Over the past half-century, footloose jobs grew more capital-intensive and less labor-intensive, reducing the demand for employment in these occupations. At the same time, productivity growth in non-goods producing sectors was primarily absorbed by growing demand or quality improvements. Thus, the demand for non-footloose jobs grew dramatically (see Hicks, 2016).

Over this time period the geography of employment also changed. The forces of agglomeration pushed more economic activity into cities. More densely distributed populations consumed more services, and footloose firms became increasingly tied to local populations where an appropriate labor force remained available. This blurred the ability of footloose firms to locate production for reasons other than labor force availability. So, even footloose firms are increasingly tied to population centers. These factors together mark the rise of employment growth in urban places, and employment declines in non-urban locations.

Some production of goods that could be manufactured by footloose firms shifted overseas, to locations where labor was less expensive. This shift comprised a very small share of total footloose employment change. One recent study pegged the manufacturing job losses to trade at roughly 13 percent of all employment declines (Hicks and Devaraj, 2015). Still, these losses were very concentrated in a few geographic locations.

These substantive economic changes have enormous implications for economic development policy at the state, regional, and local levels. To address these issues, this policy brief attempts three things. First, we outline the recent history of footloose and non-footloose jobs in Indiana and in the state's workforce regions, which serve as a reasonable proxy for local labor markets. This analysis includes the rural and urban employment changes in the state. We then describe recent economic development policy at the state, regional, and local levels.

“Densely distributed populations consume more services, and so footloose firms become more tied to local populations where an appropriate labor force remains available.”





We conclude with a description of future models for economic development policy in Indiana.

The authors want to make clear that we are not against business attraction activity as a general practice. We do, however, raise questions on how, where, and when this activity takes place, as well as the share of resources allocated to this activity.

## Footloose & Non-Footloose Jobs in Indiana

Employment structure in Indiana has undergone much the same dynamics as they have nationally. While Indiana continues to have a large share of manufacturing and transportation services in the state, by some measure the largest in the nation, overall footloose jobs have been replaced by non-footloose jobs for nearly a half century. To illustrate this, we record total footloose and non-footloose jobs at the state level. We concentrate on recent history (1998-2015) since that period offers a uniform state level definition of industries under the North American Industrial Classification System (NAICS). See *Figure 1*.

To define footloose employment, we cast a wide net, including all manufacturing and wholesale trade, all publishing industries (including local newspapers) motion picture and sound, broadcasting, internet publishing, data processing and hosting, and financial services, credit intermediation and security and commodities exchange.

Data on corporate headquarters are not available, though we would generally classify them as footloose. However, as this list suggests, we include much that is not footloose in the practical sense. Much manufacturing is geographically limited, wholesale and warehousing is primarily concerned with local and regional demand, and so only marginally footloose. The remaining sectors have many footloose firms, but also many firms that are not.

Actual examples of footloose firms are food processing facilities, corporate headquarters, call centers, automobile manufacturing firms, software design, and most logistics companies. We believe our definition exaggerates the number and growth of footloose firms, and that practically, few firms in these sectors are truly footloose. Still, the results are remarkable, as shown in *Figure 1*, which includes footloose and non-footloose job growth along with polynomial trends for both series.

From 1998 through 2015, the latest available BEA data, Indiana lost 152,750 footloose jobs across all but one of these sectors. Though several years of both internet publishing and finance-related employment were suppressed due to small numbers of firms, employment in these sectors never approached 0.04 percent of the total footloose share of jobs.

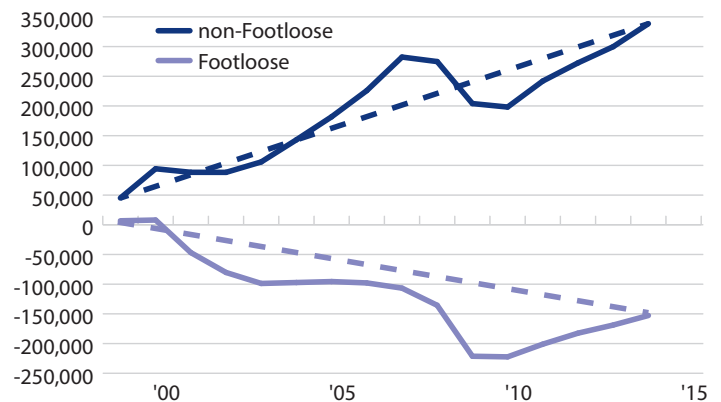
The largest share of job losses in footloose firms occurred in motion picture and sound recording sectors, followed by credit intermediation, manufacturing and traditional publishing. The bulk of lost jobs (85.0%) were in manufacturing.

Within manufacturing, job losses were highest in the manufacturing of electrical equipment (63.0%), computer parts

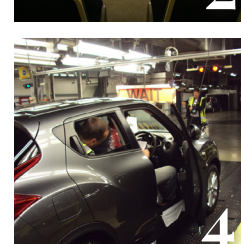
It is without question that footloose jobs play an important role in our economy, especially in terms of GDP. The bigger question is the role these sectors play in local employment, in local population growth, and in local tax revenues generated. This role has changed radically, while the local incentive structure and decision processes have not.

**Figure 1. Cumulative Job Creation in Footloose Firms and Non-Footloose Firms in Indiana, 1998-2015**

Source: Bureau of Economic Analysis and NAICS



## Examples of Footloose Firms



- 1 Food processing facilities
- 2 Corporate headquarters
- 3 Call centers
- 4 Automobile manufacturing firms
- 5 Software design
- 6 Most logistics companies

(51.3%), wood products manufacturing (39.0%), primary metals (35.9%), and apparel manufacturing (32.3%). Total job losses were highest in primary metal manufacturing (24,300), motor vehicle manufacturing (22,200), computer manufacturing (16,400) and electrical (15,400).

Footloose job losses were concentrated in durable goods production, and in non-durable goods focused on producing goods for declining footloose industries, such as paper and printing machinery, which together accounted for 71 percent of job losses in the consumer non-durables sector.

## Regional Shifts in Employment

Across Indiana's local labor markets, footloose jobs have declined. To illustrate this change we examine the state's economic growth regions. These regional data differ from the state level data, because the conversion of the Standard Industrial Classification to North American Industrial Classification at the sub-state level is reported only for 2001 and later years. Because these data sets begin in a recession year (2001), the bias in the timing understates the

Food production, textile mills and beverage and tobacco manufacturing all saw double digit growth in Indiana over this period, as did the non-manufacturing sector of security and commodities.

Across Indiana, footloose employment declined by almost 17 percent over this period, while non-footloose employment grew by almost 13 percent. Indiana remains the most footloose job dependent state in the nation, but its share of footloose employment dropped from 25.7 percent in 1998 to 20.4 percent in 2014. This shift away from footloose employment represents a dramatic shift, involving one out of six households in Indiana and nearly 500,000 jobs.

footloose job losses, since these data begin in a recession year, and footloose jobs are especially sensitive to a business cycle.

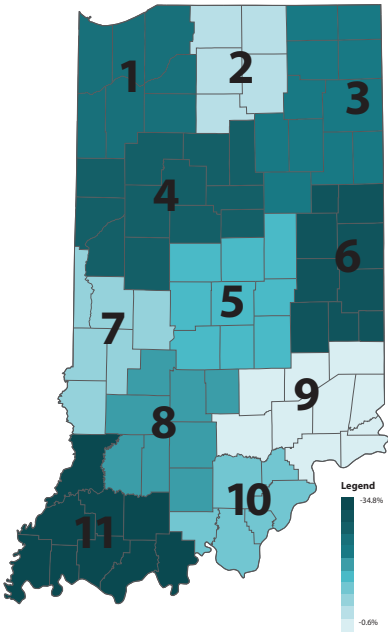
Nevertheless, the same trend at the state level is largely apparent within the state's labor market areas. See *Table 1* and the accompanying map.

The data shows that all of Indiana's labor market regions have suffered declines in footloose employment since 2001. The deepest losses were in Southwest and East Central Indiana with a third of

**Table 1 & Map 1. Employment Change in Indiana's Labor Markets, 2001-2014**

Source: Bureau of Economic Analysis, using regions from the Indiana Division of Workforce Development.  
Note: DWD Region 12 (Indianapolis-Marion County) has been combined with Region 5 (Central Ring Counties) for easier analysis.

Region	Counties	Footloose	Non-Footloose	Overall Employment
All Indiana	Total for 92 counties	-12.2%	9.2%	4%
1. Northwest (Chicago-Gary)	Jasper, Lake, LaPorte, Newton, Porter, Pulaski, Starke	-22.7%	7.4%	1%
2. North Central (South Bend)	Elkhart, Fulton, Kosciusko, Marshall, St. Joseph	-2.1%	5.1%	3%
3. Northeast (Fort Wayne)	Adams, Allen, DeKalb, Grant, Huntington, Lagrange, Noble, Steuben, Wabash, Wells, Whitley	-16.5%	5.6%	-1%
4. Lower Northwest (Lafayette)	Benton, Carroll, Cass, Clinton, Fountain, Howard, Miami, Montgomery, Tippecanoe, Tipton, Warren, White	-22.9%	7.0%	-2%
5. Central (Indianapolis)	Boone, Hamilton, Hancock, Hendricks, Johnson, Madison, Marion, Morgan, Shelby	-13.5%	19.1%	13%
6. East Central (Muncie)	Blackford, Delaware, Fayette, Henry, Jay, Randolph, Rush, Union, Wayne	-33.7%	-6.6%	-13%
7. West Central (Terre Haute)	Clay, Parke, Putnam, Sullivan, Vermillion, Vigo	-6.9%	-1.3%	-2%
8. Central Southwest (Bloomington)	Brown, Daviess, Greene, Lawrence, Martin, Monroe, Orange, Owen	-14.5%	7.9%	4%
9. Central Southeast (Columbus)	Bartholomew, Dearborn, Decatur, Franklin, Jackson, Jefferson, Jennings, Ohio, Ripley, Switzerland	-0.6%	4.1%	3%
10. Southeast (Louisville-Jeffersonville)	Clark, Crawford, Floyd, Harrison, Scott, Washington	-11.7%	9.7%	5%
11. Southwest (Evansville)	Dubois, Gibson, Knox, Perry, Pike, Posey, Spencer, Vanderburgh, Warrick	-34.8%	6.6%	3%



employment in footloose jobs lost. In contrast, only regions, East Central and West Central Indiana saw declines in non-footloose employment. This is an inevitable accompaniment to population declines.

Overall, seven out of 11 regions saw employment growth, with the Central Indiana region (greater Indianapolis) experiencing a 13 percent employment growth over this period. East Central Indiana saw a deep decline of 13 percent of total employment over this period, with the area surrounding Terre Haute and Lafayette also experiencing declines.

## Geographic Considerations

The location of economic activity during this period also changed. There was an accelerating trend towards urbanization of households and economic activity. From the 2001 recession through the most recent period, all the net employment growth in Indiana came within counties of more than 250,000 residents. Smaller places, even if adjacent to an urban area, have experienced employment declines since 2000. Rural communities in Indiana lost almost 45,000 jobs from 2000 through 2014. See *Figure 2*.

The economic geography of the past generation has seen an acceleration of employment mix, with a shift away from footloose employment. Coincident with, and related to, this change has been increased urbanization of employment growth. Nationally, all the employment growth from the late 1990s to today has been confined to large urban places. Indiana exemplifies this trend, with urban counties with more than 250,000 residents experiencing significant employment growth of more than 150,000 jobs.

Even these aggregations mask the overall trend. Examining county-level data, only seven of Indiana's 92 counties have seen employment growth greater than the national average since 2000. Six of these are urban counties that average more than 75,000 employees each. Of the 11 non-urban counties that experienced any net employment growth since 2000, the average employment level was 14,291 jobs.

Prosperity in rural areas is further challenged by the composition of this employment. Two of the rural counties that experienced employment gains also had large casinos open or grow during this time period. These counties still saw a decline in footloose employment of an average of 877 jobs each over this time period. Of the remaining nine rural counties that saw employment growth over this period, all had footloose job growth, averaging just under 700 jobs. This would seem encouraging, but all of these occurred in labor market areas where footloose jobs declined by significant numbers in prior years. Thus, even where we observe occasional growth in the number of footloose firms, it is not a trend. The rapidly declining share of footloose employment suggests these gains are transient.

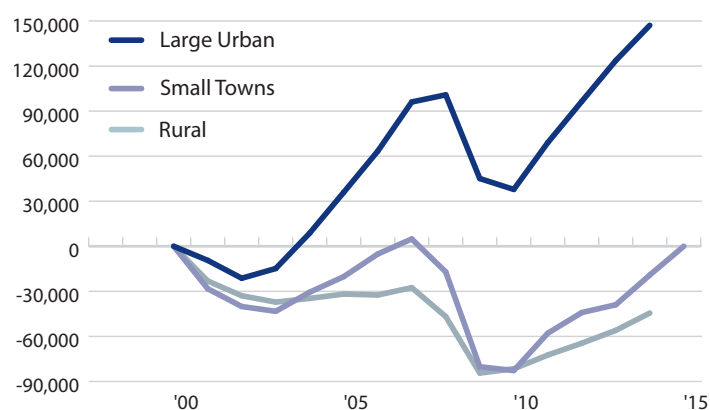
Over the past generation, employment growth in the nation and Indiana has been confined to sectors which produce goods

and services for local consumption. Footloose jobs, which produce goods for sale outside the region, are in sharp decline. This trend will continue and is accompanied by much more limited employment within larger urban counties. Indeed, in Indiana, which we believe is relatively emblematic of the nation, only counties with more than 250,000 residents have seen net employment growth over the past generation.

Despite these stark data, Indiana, as with many other states, spends the bulk of its economic development resources, along with the overwhelming majority of affiliated funding on supporting and/or attracting footloose jobs. These facts compel a major reevaluation of public policy.

**Figure 2. Regional Employment Change in Indiana, 2000-2014**

Source: Bureau of Economic Analysis



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# Restructuring Economic Development Policy

Employment growth in Indiana, as with much of the rest of the nation, has been primarily confined for a generation to large urban counties and non-footloose jobs. This means economic growth within labor market regions will be almost wholly connected to the growth in demand for goods and services consumed locally. This demand is connected to growth in households and household incomes within a region.

However, the bulk of economic development resources at the local level target new footloose employers. For example, in 2014 (the most recent year for which data is published), Indiana counties abated \$8.7 billion worth of property with a potential tax loss of over \$260 million. This is a significant increase over recent years and is not positively correlated with footloose job growth (see Hicks and Faulk, 2011; Hicks and Faulk, 2016).

Other economic development efforts with fiscal cost include the use of tax increment financing, which may have diverted as much as \$320 million in the most recent year, though the share of TIF allocated to non-business attraction is not reported to the state. These amounts, combined with significant direct infrastructure investment, workforce training and other services suggests Indiana communities are spending much more than a billion per year on the attraction of footloose firms.

## Local Government Considerations

Communities in Indiana, ranging from neighborhoods to small towns and large cities face daunting challenges. Leaders of these communities, both elected and volunteer, must help their citizens understand the development challenges before them. The frequent call for “job creation” that is echoed by those who seek political office must be replaced by a more thoughtful approach to economic development.

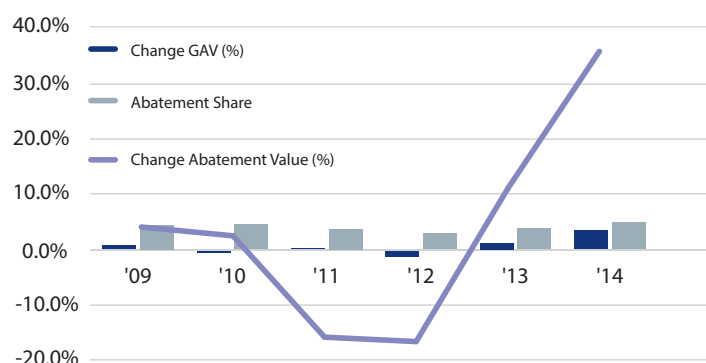
There is unanimous agreement that the availability of jobs is important to a community’s resiliency; however, the solution is not linear. ‘We need jobs in our community; therefore we will go and get companies to locate here.’ This business attraction model is still prevalent as the sole strategy for many communities. It discounts the complexities that surround true economic growth and resiliency for a community.

There is not a shortage of jobs in any Hoosier community. Rather, there is a deficit of available workers and households. These leave either supply-side constraints (too few eligible workers) or demand-side limits (too few households buying goods or services). Policies that ultimately foster population growth are the sole remedy for economic growth in the hands of local leaders.

Communities in Indiana should aggressively review their local economic prospects, using structured approaches, such as the

**Figure 3. Tax Abatements, Abatement Share, and Change in GAV**

Source: Bureau of Economic Analysis



The prioritization of this spending and the role these efforts play in developing Indiana’s economy are important questions for policy-makers. In order to reconsider priorities and structure local government and fiscal tools to address these development issues, we offer four broad policy efforts involving both review and implementation at the local, private sector, regional and state level. We discuss them in order.

Community Readiness Initiative and Hometown Competitiveness Initiative, or through the use of private consultancies. These reviews should focus on methods of attracting households by focusing on strengths and weaknesses in local schools and quality of place. These reviews should also include a regional context, and consider the value-added characteristics they bring to the region and to their citizens.

Communities should pay attention to, rather than ignore, their existing footloose industries. An aggressive business retention and expansion function should be in place that focuses on all business (footloose and non-footloose). This process should compel thought leadership about the local economy, and address the issues that increase the community’s capacity for resiliency and growth. These issues often evolve around workforce and primacy of place issues. Many successful LEDOs have evolved to this model.

Indiana communities should also recognize the need to reduce administrative overhead in government. The consolidation or elimination of functions (rather than structures) of local government is a good first step. The savings involved are significant, and review of the Kernan-Shepard Commission Report finds savings in the \$600 million per year range of implementation (see Faulk and Hicks, 2011, and Faulk and Hicks, 2009; Taylor, Faulk and Schaal, 2016).



Indiana communities must also recognize that their interdependence with other local areas including the surrounding counties, are critical to their growth. Communities are where people live, and therefore are where workers live. Within a labor market, communities will typically see significant out and in migration of labor.

Success in the 21st century requires that communities become places where households wish to live, not necessarily where businesses wish to locate. This is an important point to take into account. Not all households wish to live in urban areas, but can accept working in urban areas. Most rural communities in the state

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## *Private Sector Considerations*

The private sector plays a dominant role in the focus, structure and financing of economic development organizations. Local economic development boards, regional economic development groups and workforce boards are all populated by private sector leaders. Much of the operational financing and priorities of the level and structure of local economic development groups are set by these boards and memberships.

Private sector leaders must play a more activist role in economic development. As this policy brief demonstrates, fundamental change in the composition and geography of employment has been occurring for nearly half a century and accelerated over the past generation. Most local development organizations in the Midwest are unaware of these trends. It is no exaggeration to say that the majority of LEDO in Indiana continues to organize, fund and prioritize development efforts in nearly the same way they did in the 1970s. That approach has failed Indiana, and those who provide board oversight and financing must force change in communities. Those that do not are unlikely to prosper.

The private sector should also seriously engage in an introspective analysis of the role of tax incentives. Tax abatements, and to a lesser degree, Tax Increment Financing, divert significant resources from such local activities as schools, road repair, public safety and quality of life investments in Indiana. Far too many businesses pursue these incentives myopically. Business costs matter, but we can identify dozens of Indiana businesses who have complained openly of local workforce quality while aggressively pursuing tax abatements which remove resources from local schools. This response is not in keeping with the highest traditions of American commerce.

Private sector employers must be honest about their use of incentive and the prioritization of human capital development. Businesses that use incentives implicitly concur with the deployment of local dollars away from education, and should be thereafter silent on such issues as poor roads, a skills shortage or shortfalls on public safety. While local governments bear an appropriate burden regarding the quality of local public goods and services, so do taxpayers.

We believe that the business communities in Indiana must aggressively consider whether or not the current structure of business

are located within commuting distance of urban cores, and indeed more than 85 percent of Hoosiers live in less than a 20-minute commute from an urban area. Community policies that focus on this are just as important as other economic development strategies.

“ Sustainable communities are places where households wish to live, not necessarily where businesses wish to locate. ”

incentives is in the long-term interest of Hoosier commerce. The goals of policy would be to reduce tax distortions, reduce complexity, increase equity and stability, and insure adequacy of revenues to local governments. The private sector should study and recommend options that meet these goals of a good tax system. Such measures as a universal, short term tax abatement for new business and residential investment and layered approval requirements for Tax Increment Financing should be considered.

Indiana businesses should also seriously consider changes to support for local economic development operations. While operations may differ from county to county, such measures as the elimination or merger of business attraction efforts at the county level should be considered, as should changes to local mission of economic development groups to focus on attracting households instead of businesses.

### *The private sector should study and recommend options that meet these goals of a good tax system:*

- 1 reduce tax distortions
- 2 reduce complexity
- 3 increase equity and stability
- 4 insure adequacy of revenues to local governments

### *Measures that should be considered:*

- 1 A universal, short-term tax abatement for new businesses and for residential investment
- 2 Layered approval requirements for tax increment financing

## Regional Considerations

The economic effects of business relocation are largely felt in those places where workers locate. Thus, the opening of a plant or other commercial activity will cause larger impacts across a regional labor market rather than locally. This offers a critical argument for regional cooperation, especially in business attraction. Additionally, technology has increased the scale at which business attraction services can be provided at minimal cost. Web based data delivery and Geospatial Information Systems reduce the need for local knowledge. So, even if footloose business relocation were not a shrinking share of economic activity, the consolidation of business attraction efforts at the multi-county level would be warranted.

For regions to prepare to host multi-county business attraction efforts, they should have structure and mission which supports this work. Currently many regional organizations exist as multi-county LEDO collaborations, or to fulfill federal guidance on planning for transportation and other federal infrastructure support. Organizational models, which can adopt business attraction activities, should be explored and refined.

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## State Considerations

State governments in general, and Indiana in particular, play a significant, but tangential role in local economic development policy. States with robust fiscal climates and attractive regulatory environs will make the job of growing local economies easier; However, there are several things that states can, and should, do to improve local and regional economic development.

Local governments require fiscal flexibility to succeed or fail on their own merit. Counties, municipal and other local governments who take steps to reduce costs and provide robust services should be given greater fiscal flexibility than those who do not. Efforts to improve the incentives for local governments to focus on value in the provision of public goods and services should be vigorously pursued.

Local incentives are property tax based, so draw directly from important competing funds like schools, public safety and road maintenance. This is a structural problem for the state to consider in light of several studies reporting poor results of property tax based incentives.

State government should consider incentivizing the creation of regional economic development organizations and the consolidation of business attraction activities to the regional level. The state should also focus economic development service delivery to regional organizations.

Likewise, IEDC should structure the incentives to broaden the scope of local contributions. While it is important that local governments have "skin in the game" when the state offers incentives,

“ All parts of Indiana should be represented by regional economic development organizations. ”

Another consideration regards the use of currently available local incentives (i.e., tax abatement and TIF – both local property tax-based incentives). The host community (the winner of the attraction game) can bear an undue burden in tax-incentive loss, while surrounding communities stand to gain in income tax revenue, from workers who commute. The impact is regional, while the burden is local.

All parts of Indiana should be represented by regional economic development organizations, and economic and community development services from state government should be directed to these regional groups. While this is a state level decision, regional economic development groups and their representative organizations should assist Indiana counties in participating in or developing regional organizations. Faulk and Hicks (2013) found that counties with Regional Development Authorities (RDAs) have higher job growth than counties without RDAs.

local contributions could easily take the form of increased school funding, a community learning center or other investments not specifically related to the site the new firm will locate.

Regional fiscal instruments should be considered as a mechanism for financing infrastructure and operations. These could include regional instruments on sales or income, considered within the context of broader fiscal reform.

States should consider modifying regional service area regions to align with regional development organizations. This could include IEDC, OCRA, DWD, and/or INDOT regions. It is not necessary to create an equal number of state regions, but modifying borders of larger regions to work within a single local region should be considered.



# Key Findings

## *Since 2000...*

- Indiana has lost more than 150,000 footloose (or attractable) jobs, despite enormous local government investment in business attraction.
- Indiana has gained almost 350,000 non-footloose (or population dependent) jobs, despite far more modest efforts to nurture this opportunity at the local level.
- All of Indiana's labor markets (as measured by Workforce Development regions) have lost footloose jobs since 2000. Southwest Indiana and East Central Indiana experienced the greatest loss of footloose jobs at 34.8 percent and 33.7 percent respectively.

## *For a generation or longer...*

- For a generation or longer, all of Indiana's net population growth is confined to a few urban counties. The forces of agglomeration strongly suggest this will continue into the distant future.

## *Labor markets...*

- Every labor market region except East Central and West Central Indiana experienced growth in non-footloose (or population dependent) jobs. Central Indiana saw a 19.1 percent increase, while seven of the remaining 10 regions saw growth of more than 5.0 percent over this time.
- All of Indiana's labor markets (as measured by Workforce Development regions) have lost footloose jobs since 2000. Southwest Indiana and East Central Indiana experienced the greatest loss of footloose jobs at 34.8 percent and 33.7 percent respectively.

## *Local governments...*

- Local governments lack the fiscal flexibility to make important improvements, and many have become overly reliant on tax incentives that deprive schools and municipal government with the resources needed to grow or improve.

## *The private sector...*

- Especially the employer community must play a more active role in helping local governments adjust their economic development strategies. The private sector should also consider more closely their role in the over use of property tax-based incentives.

## *At the local level...*

- Economic development policy has not adapted effectively. Too many communities have failed to shift their policies to reflect the economic forces of agglomeration and the changing industrial structure of the 21st Century.

## *At the regional level...*

- There remain too few regional development entities, with fewer resources and less fiscal flexibility than will be needed in the 21st Century.

## *At the state level...*

- Indiana is addressing this fundamental economic change aggressively and effectively. Indiana's state incentives target human capital and such programs as Stellar Communities and the Regional Cities Initiatives are national models for economic development policy.



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