

April | 2012

Status of Working Families in Indiana, 2011



Measuring Indiana's Recovery by the Economic Health of Indiana's Working Families



About the Indiana Institute for Working Families

The Indiana Institute for Working Families (Institute) is a program of the Indiana Community Action Association, Inc. (IN-CAA). The Institute was founded in 2004. The Institute conducts research and promotes public policies to help Hoosier families achieve and maintain economic self-sufficiency. The Institute is the only statewide program in Indiana that combines research and policy analysis on federal and state legislation, public policies, and programs impacting low-income working families with education and outreach. The Institute achieves its work by focusing its activities in the following areas: Public Policy: Research and Analysis; Education and Outreach; and National, Statewide, and Community Partnerships. To learn more about the Institute, please visit: www.incap.org/iwvf.html.



About the Indiana Community Action Association (IN-CAA)

The Indiana Community Action Association, Inc. (IN-CAA) is a statewide not-for-profit membership corporation, incorporated in the State of Indiana in 1970. IN-CAA's members are comprised of Indiana's 23 Community Action Agencies (CAAs), which serve all of Indiana's 92 counties. IN-CAA envisions a state with limited or no poverty, where its residents have decent, safe, and sanitary living conditions, and where resources are available to help low income individuals attain self-sufficiency. IN-CAA serves as an advocate and facilitator of policy, planning and programs to create solutions and share responsibility as leaders in the War Against Poverty. IN-CAA's mission is to help the state's CAAs address the conditions of poverty through: training and technical assistance; developing models for service delivery; and providing resources to help increase network capacity. For more information about IN-CAA, please visit IN-CAA's web site at: www.incap.org.

About the Author, Derek Thomas

Derek Thomas is a Policy Analyst with the Indiana Institute for Working Families. Derek was the author of the Institute's recent report on work sharing; [Work Sharing: A Win-Win-Win Strategy to Avoid Job Loss](#). Prior to employment with the Institute, Derek spent the last two legislative sessions working at the Indiana State House; first as a legislative intern and then as a legislative assistant for Hays and Associates. Derek is currently working on his Masters in Public Affairs/Policy Analysis at the School of Public and Environmental Affairs (SPEA) at Indiana University Purdue University Indianapolis (IUPUI). Derek obtained his Bachelor's in Policy Studies from SPEA at IUPUI.

Acknowledgements

The Indiana Institute for Working Families would like to thank the following groups and individuals for their support in the development and completion of this report:

- ✓ *The Economic Policy Institute's Economic Analysis Research Network (EARN)* for their continued support in providing research data and feedback for this report.
- ✓ *Indiana Institute for Working Families Advisory Committee, especially Dr. Charles Warren, Chairman*, for their time and valuable feedback on this report.
- ✓ *Indiana Community Action Association's Board of Directors and Staff*, who provide support for the Institute and its work.

The full report can be found online at: <http://www.incap.org/statusworkingfamilies.html>

Table of Contents

| | |
|--|-----------|
| Introduction..... | 1 |
| Executive Summary..... | 2 |
| Chapter 1—Post-Recessionary Indiana | 4 |
| Indiana’s Job Deficit | 6 |
| Post-Recessionary Policies | 7 |
| Public Investment | 8 |
| Indiana’s Auto Industry Resurgence | 9 |
| Chapter 2—Unemployment, Labor Force & Industry Performance | 11 |
| Long Term Unemployment and Underemployment..... | 12 |
| Labor Force Participation | 15 |
| Industry Analysis | 16 |
| Manufacturing Sector..... | 17 |
| Policy Recommendations | 19 |
| Chapter 3—Educational Attainment | 20 |
| Policy Recommendations | 22 |
| Chapter 4—Wages | 23 |
| Median Household income | 24 |
| Median Wages by Demographic | 25 |
| Wage Productivity Gap..... | 27 |
| Income Distribution | 28 |
| Minimum Wage | 28 |
| Indiana’s Regressive Tax System | 30 |
| Policy Recommendations | 31 |
| Chapter 5—Poverty..... | 32 |
| A More Accurate Measure of Poverty | 35 |
| Public Policy and Poverty | 36 |
| Policy Recommendations | 37 |
| Appendix A—Full Set of Policy Recommendations | 38 |
| Citations | 44 |

Introduction

The *Status of Working Families in Indiana 2011* report analyzes the general state of Indiana's economy as it relates to working families, its workforce, its struggle with maintaining livable wages, and subsequently, the state of poverty in Indiana. The report will focus on Indiana's status in a post-recessionary economy.

The Great Recession lasted from December of 2007 through June 2009 and was the worst economic downturn the United States has experienced since the Great Depression. The national media often referred to Indiana as a model for economic recovery based on the fact that the state budget had a surplus for several years during the recession. However, Indiana's actual recovery, as measured by the economic health of Hoosier families, is inconsistent with these portrayals.

To be clear, Indiana is not out of the woods. In fact, the data shows a recovery in Indiana marked by a weakened labor market, an unprecedented decline in wages, and dramatic increases in poverty. Due to across-the-board state budget cuts, a significant loss of public-sector jobs, and low uptake rates in work-support programs due to a public policy environment that's not been conducive to working families, tens of thousands of Hoosiers are unnecessarily experiencing the human toll of this recession. While Governor Daniels could not predict the Great Recession when he made raising disposable income for Hoosiers his number one goal as governor, it should not have been forgotten.

Just as a family's financial surplus is only as good as the stability of that family, the same is true for the state of Indiana. It is clear that Indiana's families are suffering, and yet, despite reserves, the financial security of working families has not been a high legislative priority. As such, policymaker's need to take swift action to attract high-paying quality jobs, raise the bar on wages for hard working Hoosiers, and provide the necessary work-supports if working families are to regain their footing in this economy.

Finally, because public policy decisions made at the federal and state levels do affect the state's economic recovery, and subsequently, the well-being of Indiana's working families, the Institute will provide recommendations that are favorable for those who, through no fault of their own, disproportionately felt the pain caused by the Great Recession. The Institute seeks to use this data to support changes in public policy that will create paths towards economic self-sufficiency for Indiana's working families.

The full report can be found online at: <http://www.incap.org/statusworkingfamilies.html>

Executive Summary

The following are the Institute's Key Findings:

Chapter 1: Comparison of Postmodern Recessionary Recoveries

- ⇒ Indiana's jobs deficit, or the difference between the numbers of jobs Indiana currently has, and the number of jobs it needs to regain for pre-recession employment (2,987,200 jobs) is 231,500 jobs.
- ⇒ From August 2008 through February 2012, state and local government jobs have decreased by 5.2 percent. This represents nearly 22 percent (21,200 jobs) of all jobs lost during the same time period. In a single month, from August 2010 to September 2010, Indiana shed nearly 10,000 state and local government jobs.

Chapter 2: Unemployment, Labor Force, and Industry Performance

- ⇒ As of March 2012, Indiana's unemployment rate was 8.2 percent—tied with the national average. It has not been lower than the national average since May of 2011.
- ⇒ Disproportionate unemployment rates for youth (19 percent) are a menace to the status of Indiana's already struggling labor force.
- ⇒ Indiana is among 17 states that have continued to experience absolute declines in its labor force since the recession began.

Chapter 3: Educational Attainment

- ⇒ Only 14.6 percent of Hoosiers over the age of 25 have a bachelor's degree—ranking Indiana 42nd in the nation.
- ⇒ Only 22.7 percent of Hoosiers over 25 years old have education beyond a bachelor's degree—ranking Indiana 43rd in the nation.
- ⇒ Only 8.1 percent of Hoosier's over the age of 25 years possesses a graduate degree—ranking Indiana 39th in the nation.
- ⇒ Of Indiana's neighboring states, only Kentucky offers those with bachelor's degrees lower wages. At \$23.56 per hour, Indiana's median wages for those with a bachelor's degree are nearly \$0.80 below the national average.

Chapter 3: Wages

- ⇒ Currently, Hoosiers now earn \$0.85 on the dollar compared to the rest of the nation—Indiana ranks 41st in the nation.
- ⇒ Since 2000, wages have decreased for both the 50th percentile and the 10th percentile, by 3.4 percent and 10.6 percent, respectively. During the same time period, those in the 90th percentile have seen a 2.8 percent increase. At the same time, productivity has increased by over 14 percent from 2000 to 2009.
- ⇒ Median Household Income for Hoosiers fell by 13.6 percent in the past decade—from \$51,650 to \$44,613. This is the 2nd largest decrease in wages in the U.S. Only Michigan saw larger declines at 17.3 percent.
- ⇒ The Median Family Income was \$78,599 in 2000. In the last decade, it has decreased by 29.6 percent. It now stands at \$55,368. This is also the 2nd largest decrease in the nation.

Chapter 5: The State Of Poverty in Indiana

- ⇒ Since 2000, Indiana has seen a 52 percent increase in poverty. This is the 6th highest increase in the nation. In 2010, Indiana’s poverty rate was 15.3 percent (962,775 Hoosiers).
- ⇒ Since 2000, Indiana has seen a 52 percent increase in child poverty—representing the 12th largest increase in the nation. In 2010, the child poverty rate was 21.7 percent (342,172 Hoosier children).

Appendix A: Policy Recommendations

- ⇒ In order for working families in Indiana to recover, the Institute provides 16 recommendations it believes should be given legislative priority to address the following: *preserve jobs and provide employment opportunities to all Hoosiers; increase the number of low-skilled adults who enroll in postsecondary education and training programs to address Indiana’s middle-skills gap and; promote financial stability for working families by improving wages, benefits, and work support programs.*

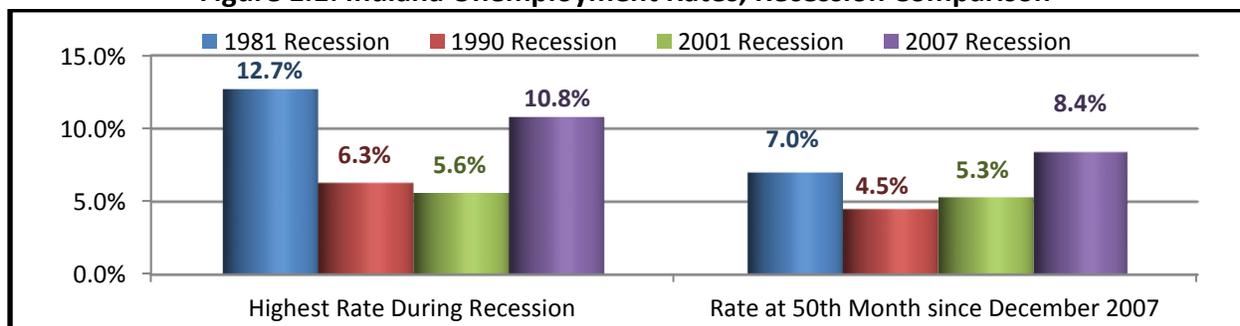
The full report can be found online at: <http://www.incap.org/statusworkingfamilies.html>

Chapter 1: Post-Recessionary Indiana

Since the post-World War II era, the U.S. economy has experienced eleven recessions. The Great Recession was the worst economic downturn the U.S. has experienced since the Great Depression. These post-war recessions lasted anywhere from six months to sixteen months, with an average of about ten and a half months. The Great Recession was the longest in modern history, lasting 18 months, from December 2007 through June 2009. According to the Congressional Research Service, recessions have been less frequent in recent history, with only two from 1982 through 2001. However, the length of time between 2001 and 2007 recessions is comparable to the frequency of recessions from 1945 through 1981.^{1,a}

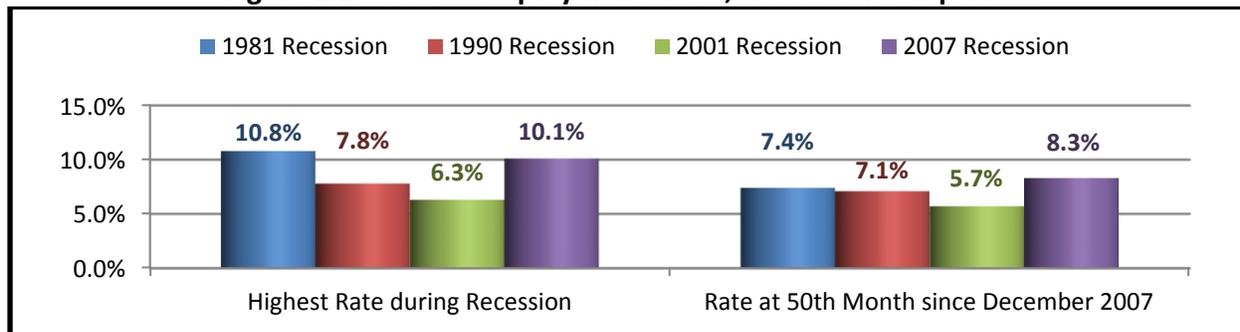
As seen in **Figure 1.1** and **Figure 1.2**, unemployment rates during the Great Recession peaked at 10.8 percent in Indiana. Nationally, unemployment peaked at 10.1 percent. In 1981, unemployment rates in Indiana peaked at 12.7 percent. Nationally, unemployment peaked at 10.8 percent.

Figure 1.1: Indiana Unemployment Rates, Recession Comparison^b



Source: Economic Policy Institute Analysis of Local Area Unemployment Statistics, February 2012

Figure 1.2: U.S. Unemployment Rates, Recession Comparison



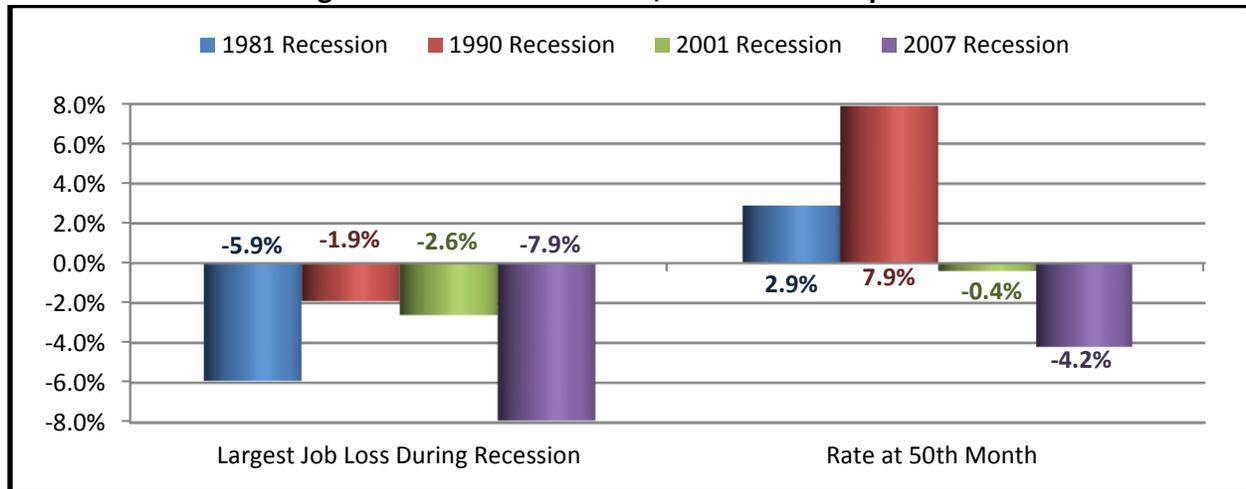
Source: Economic Policy Institute Analysis of Local Area Unemployment Statistics, February 2012

^aNote: These recessions varied in their causes. The recession in 1981 was largely a result of monetary policies in which the Federal Reserve raised interest rates to combat high inflation in the wake of the 1973 oil crisis and the 1979 energy crisis, and subsequent stagflation. In 2007, the recession was driven by the collapse of the housing market and the subsequent financial and credit crisis.

^bUnemployment Rate: measures the total labor force or workers who are currently not employed for full-time work, but want to be. It does not count people who are not actively seeking work.

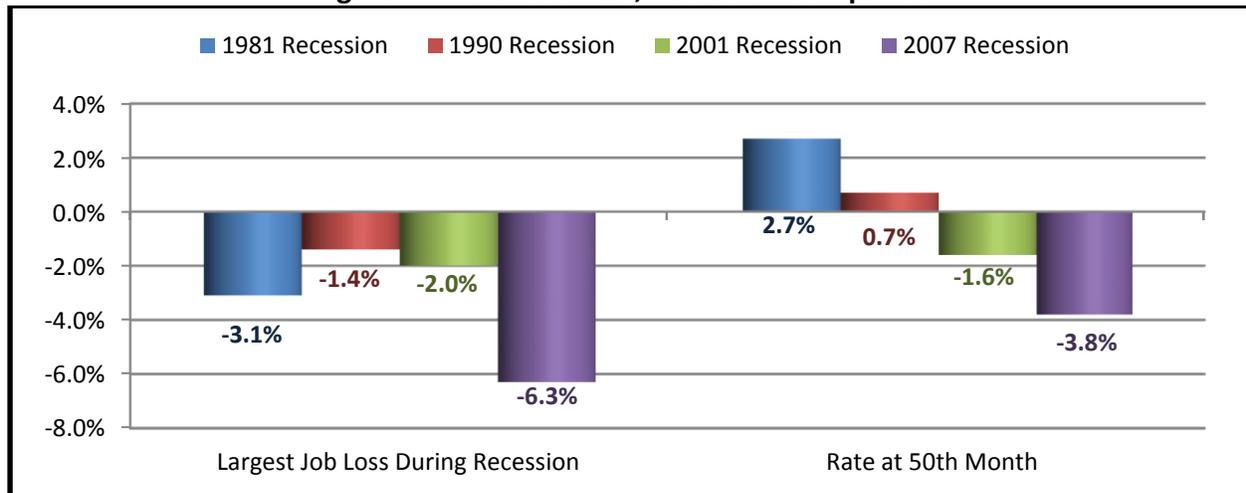
As illustrated in **Figure 1.3** and **Figure 1.4**, Indiana experienced a greater percentage of peak job loss than the national average. In general, this is true for most of Indiana’s neighboring states that are affected by the continuing decline of manufacturing jobs during the postmodern recessionary periods. As a nation, employment grew by 19 million jobs following the 1981 recession, but three-fourths of the increase was in services and retail trade, while manufacturing’s workforce decreased by 25 percent.²

Figure 1.3: Indiana Job Loss, Recession Comparison



Source: Economic Policy Institute Analysis of Local Area Unemployment Statistics, February 2012

Figure 1.4: U.S. Job Loss, Recession Comparison



Source: Economic Policy Institute Analysis of Local Area Unemployment Statistics, February 2012

These losses, defined by increased trade deficits, currency manipulation, technological improvements in response to global competition, and a lack of commitment to American manufacturing continued to negatively affect Indiana’s workforce. Indeed, from 1993 through 2000, it is estimated that Indiana lost 31,110 jobs as a result of trade deficits through the North American Free Trade Agreement (NAFTA).³ Moreover, from 2001-2010, due to trade deficits and currency manipulation with China, it is estimated that Indiana lost 2.05 percent, or 61,600 jobs.⁴ With manufacturing jobs being central to middle-class prosperity, Indiana has not recovered in terms of wages lost during the 1981 recession, let alone the 2001 recession. These trends help to underscore the current status of working families in Indiana.

Indiana’s Job Deficit

When the recession began in December 2007, Indiana had 2,987,200 jobs. Since then, Indiana has experienced 26 months of job loss. In July 2009—the peak of job loss—Indiana had 235,200 fewer jobs than it did before the recession began. As of February 2012, Indiana had 125,100 fewer jobs than it had when the recession began in December 2007.

Therefore, Indiana’s jobs deficit (illustrated in **Figure 1.5**), or the difference between the numbers of jobs Indiana currently has, and the number of jobs it needs to regain for pre-recession employment (2,987,200 jobs) is 231,500 jobs. This includes the 125,100 jobs Indiana lost in addition to the 106,400 jobs it needs to keep up with the 3.6 percent growth in population that Indiana experienced in the 50 months since the recession began.⁵ Economists and analysts range in their forecasts of full job recovery (pre-recession employment)—estimates range from another 2.5 to 7 years.^{c,d,e} In the end, this means the the U.S. could face a lost decade of employment growth.

Figure 1.5: Jobs Deficit, Indiana, February 2012

| | |
|--|----------------|
| Start of the recession | Dec-07 |
| Number of jobs | 2,987,200 |
| Labor market trough | Jul-09 |
| Number of jobs | 2,752,000 |
| Peak-to-trough job shortfall | -235,200 |
| Current Month | Feb-12 |
| Number of jobs | 2,862,100 |
| Jobs lost since the start of the recession | -125,100 |
| Population growth since the recession began | 3.6% |
| Number of jobs needed to keep up with population growth | 106,400 |
| Job Deficit | 231,500 |

Source: Economic Policy Institute Analysis of Current Employment Statistics and Local Area Unemployment Statistics, January 2012

^c According to the Congressional Budget Office, the unemployment rate will continue to decline. By the end of 2015, the unemployment rate will be 7% and by 2017, it will reach 5.5%.

^d The Federal Reserve recently raised its expectations—estimating a 6.7% unemployment rate by the end of 2014.

^e Moody’s Analytics projects slower job recovery for rust belt states due to European financial crisis.

Post-Recessionary Policies

Moving forward to the current economic recovery, and as noted in the Institute's *Status of Working Families in Indiana 2010* report, the most recent recession in the U.S. will be defined by record job losses, foreclosures, and failures in the automobile and banking industries. The report notes that a turning point came in 2009 when President Obama signed into law the American Recovery and Reinvestment Act (AARA) which halted the rapid free-fall of the national economy.

Immediately after passage AARA rapidly reversed the falling Gross Domestic Product (GDP) and as of November 2011 it had been attributed to saving between 2.2 and 4.2 million jobs.⁶ Independent analysis estimates that, without the federal government's response, GDP in 2010 would be about 11.5 percent lower, payroll employment would be less by some 8.5 million jobs, and the nation would now be experiencing deflation.⁷

As the nation experienced drastic decreases in demand, a number of timely, targeted and temporary measures included in the stimulus package put money into the hands of spending consumers. The increased demand put money into hands of local economies and small business owners, thereby contributing to state revenues from sales and other related taxes, and ultimately helping to mitigate the effects of the Great Recession. Among these measures, the First Time Homebuyers Credit, the Energy Efficiency and Conservation Incentives, and "Cash for Clunkers" all helped to stimulate the economy.^f

Another feature of the current recession involved the difficulty in accessing capital. In a difficult job market, entrepreneurs can typically be incentivized to start a small business through home equity financing or through the use of credit cards. Due to declining housing values and tighter credit standards, this option is more difficult during the current economic recovery. As such, the Federal Reserve has recently called on Congress to further stimulate growth, noting unprecedentedly low "birth-rates" for small businesses.

Fortunately, Congress passed the Middle Class Tax Relief and Job Creation Act of 2012, which, among other things, includes a provision to target the low "birth rate" of small businesses. This provision allows the unemployed entrepreneurs—those who are unemployed and starting a new business—to continue to collect benefits without job search requirements.⁸

^fAccording to the Association of Realtors, 13% of first time homebuyers in 2010 cited the Credit as their primary reason for purchase: <http://www.mdrealtor.org/LinkClick.aspx?fileticket=u26L6yG8Ls4%3D&tabid=533>

GAO estimates that the total cost to taxpayers will be \$23.5 billion: <http://www.gao.gov/products/GAO-10-1025R> .

A study done by the Center for Responsible Lending suggests that the Credit may have been responsible for pushing prices up, spurring greater demand:

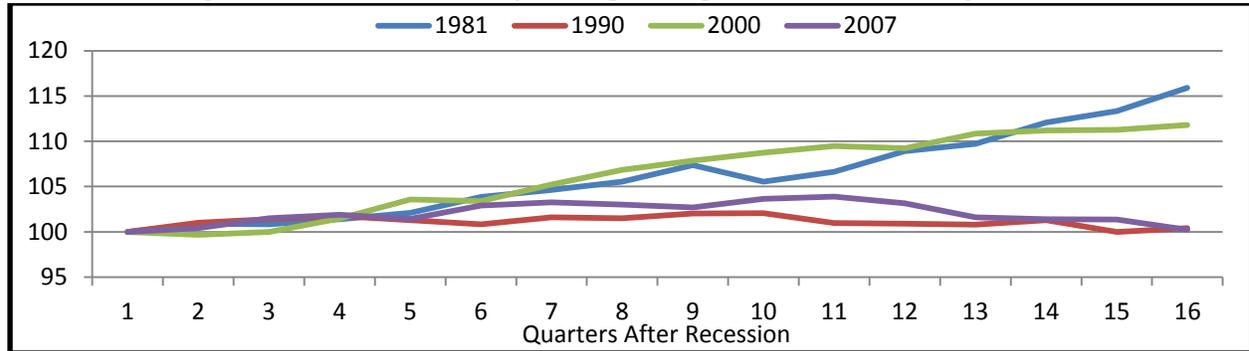
<http://dukespace.lib.duke.edu/dspace/bitstream/handle/10161/3577/MPv11.pdf?sequence=1>

Mark Zandi of Moody's Economy.com states that the "Credit helped to stanch the price declines, which had substantial benefit for the entire economy": <http://www.nytimes.com/2010/04/27/business/27home.html>

Public Investment

As noted in **Figure 1.6**, the most robust of postmodern recessionary recoveries also coincided with the most growth in government spending. As Economic Policy Institute (EPI) economist, Josh Bivens explains, “If we mimicked government spending growth from the 1981 recovery, [there would] be 3 percent boost to GDP and more than 3 million jobs...roughly 40 percent of the jobs gap caused by the Great Recession.”⁹

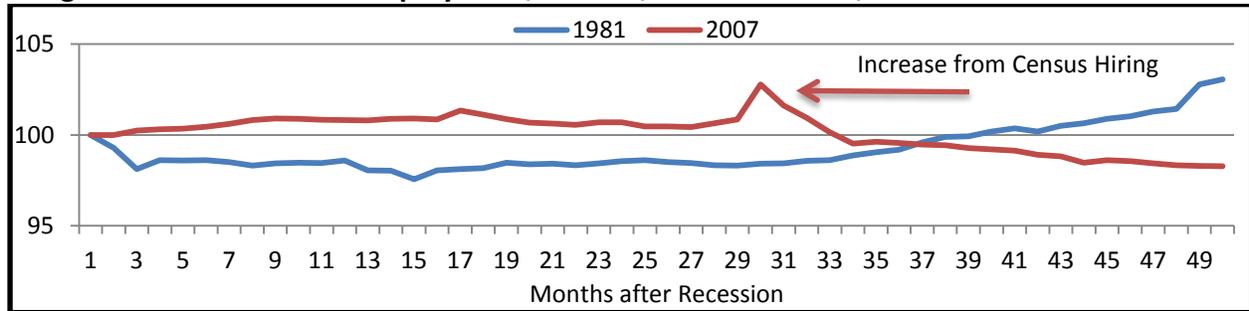
Figure 1.6: Government Spending during Economic Recovery Periods



Source: Bivens, Josh. Economic Policy Institute Blog. *Maybe Reagan Was Onto Something*. 2012. Index: Previous Business Cycle = 100%

Along with the preservation of government spending during the 1981 recession, state and local government jobs such as teachers, firefighters, first responders and those providing essential services were also spared. **Figure 1.7** displays percentage changes in government employment 50 months after the 1981 and 2007 recessions. As shown, 4 years after the 1981 recession, government employment had grown by 3.1 percent, while for years after the 2007 recession, government jobs shrank by 1.7 percent—that’s a difference of hundreds of thousands of jobs.

Figure 1.7: Government Employment, Federal, State and Local, 50 Months after Recession



Source: Economic Policy Institute Analysis of Current Establishment Survey, January 2012, Index: Previous Business Cycle = 100%

In Indiana, state and local government jobs actually grew by 3.2 percent (over 12,000 jobs) from the beginning of the recession until August 2008. However, from August 2008, up until February 2012, state and local government jobs have decreased by 5.2 percent (over 21,200 jobs). This represents nearly 22 percent of all jobs lost in the same time period. And, in a single month (August 2010 to September 2010) Indiana shed nearly 10,000 state and local government jobs.

Indiana's Auto Industry Resurgence

The U.S. Bureau of Labor Statistics (BLS) recently reported that Michigan and Indiana were two of five states to see statistically significant decreases (greater than 1.0 percent) in annual unemployment rates from 2010 to 2011.¹⁰ Indiana's rate dropped 1.1 percent. The counties that saw the largest decreases between 2010 and 2011 are the counties that directly benefited from the auto industry restructuring. **Figure 1.8** displays the top ten counties who saw the largest decrease in unemployment rates from 2010 to 2011. **Figure 1.9** show that of the 28,900 manufacturing jobs added in 2010 and 2011 (annual changes), nearly 30 percent were jobs directly impacted by changes in U.S. production and sales of motor vehicles. This also equates to 14 percent of total non-farm employment increases between 2010 and 2011 annual changes.

Figure 1.8: Change in Annual Unemployment Rates in Selected Indiana Counties^{g,h,i}

| County | 2009 Rate | 2010 Rate | 2011 Rate | 10-11 Change |
|-----------|-----------|-----------|-----------|--------------|
| *Noble | 17.4% | 13.9% | 9.0% | 4.9% |
| *LaGrange | 17.6% | 12.9% | 9.4% | 3.5% |
| Adams | 14.8% | 11.1% | 8.2% | 2.9% |
| *Elkhart | 18.1% | 13.6% | 10.9% | 2.7% |
| *Steuben | 14.7% | 12.4% | 9.8% | 2.6% |
| *Fulton | 12.9% | 11.5% | 9.0% | 2.5% |
| *Howard | 15.0% | 12.4% | 9.9% | 2.5% |
| *DeKalb | 13.8% | 12.0% | 9.6% | 2.4% |
| Fountain | 12.8% | 11.8% | 9.4% | 2.4% |
| Warren | 10.6% | 9.4% | 7.0% | 2.4% |

Source: Bureau of Labor Statistics, Local Area Unemployment Statistics, 2009, 2010, and 2011.

Figure 1.9: Change in Jobs due to Changes in Production and Sales^j

| Industry Classification | Change 2008 | Change 2009 | Change 2010 | Change 2011 | Change 2010-2011 |
|---|----------------|----------------|----------------|----------------|---------------------|
| <i>Motor vehicle Body and Trailer Manufacturing</i> | -5,800 | 700 | 2,100 | 1,500 | 3,600 |
| <i>Motor vehicle Parts Manufacturing</i> | -4,000 | -3,300 | 2,100 | 2,000 | 4,100 |
| <i>Motor Vehicle Manufacturing</i> | 1,300 | -1,100 | 300 | 200 | 500 |
| Total Change | -8,500 | -3,700 | 4,500 | 3,700 | 8,500 |

Source: Analysis of Bureau of Labor Statistics Automotive Industry: Employment, Earnings, and Hours

^gThose counties with asterisk are Elkhart and Howard Counties, counties that are either bordering or lying within direct proximity of Elkhart and Howard Counties. Data is not seasonally adjusted.

^hAccording to STATS Indiana, in 2009, of the 5,294 residents of LaGrange County that traveled outside of the county for work, over half went to Elkhart County. Of the 7,149 resident of Noble County that traveled outside of the county for work, 1,200 traveled to Elkhart County.

ⁱThe automotive industry includes industries associated with the production, wholesaling, retailing, and maintenance of motor vehicles. This industry is not formally defined in the North American Industry Classification System (NAICS), but the Bureau of Labor Statistics is referring to a group of detailed industries as the "automotive industry" for purposes of analysis. This list is not exhaustive (and for Indiana specific data does not include/was not available for wholesale jobs) but includes industries that can be directly impacted by changes in U.S. production and sales of motor vehicles. The data is not seasonally adjusted.

^jFurther analysis by the Center for Automotive Research (CAR) shows that motor vehicle and parts manufacturing employment increased by 35,000 from July 2009 through September 2010 in Michigan, Indiana and Ohio. In addition, the research by CAR states that without the bailout, personal income losses would have totaled \$96 billion and 1.5 million jobs would have been lost.

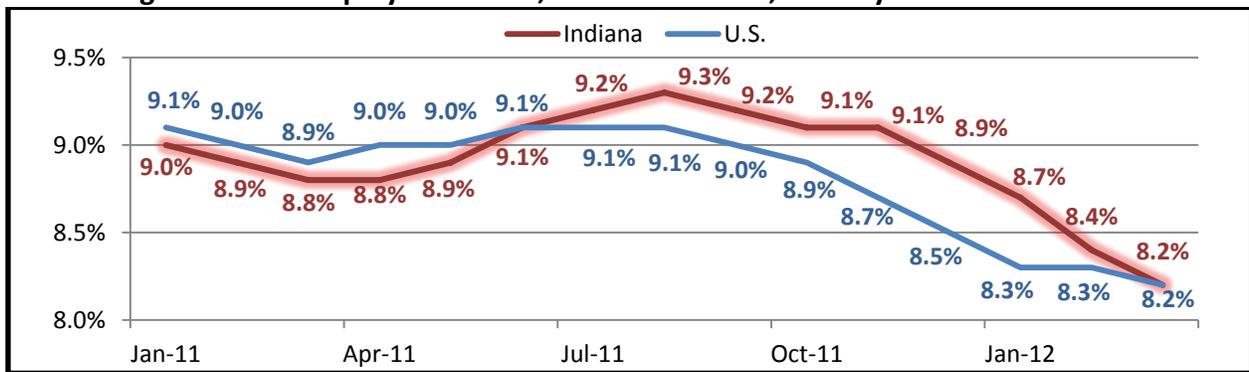
As the data in this chapter shows, government spending has helped to spur not only job growth, but economic recoveries both during the current economic recovery and past economic recovery periods.

It is unfortunate that our political leaders are calling into question the role of the government, when the data clearly shows that, in Indiana, the government has indeed played a role in increasing demand and lowering unemployment. Rather than argue validity of government spending, policymakers should be focused on policies that can help further reduce the number of jobs lost and spur economic recovery.

Chapter 2: Unemployment, Labor Force & Industry Performance

By measuring unemployment rates, the Institute is able to identify Hoosiers who have actively sought employment in the past four weeks—a measure of the strength of Indiana’s job market. Currently, unemployment rates in Indiana have been decreasing along with the nation. Indiana has not seen rates lower than the U.S. since May of 2011. Additionally, since August of 2011, only three states (Indiana, New York, and Oklahoma) saw increases in their unemployment rates—suggesting a slower than average recovery.

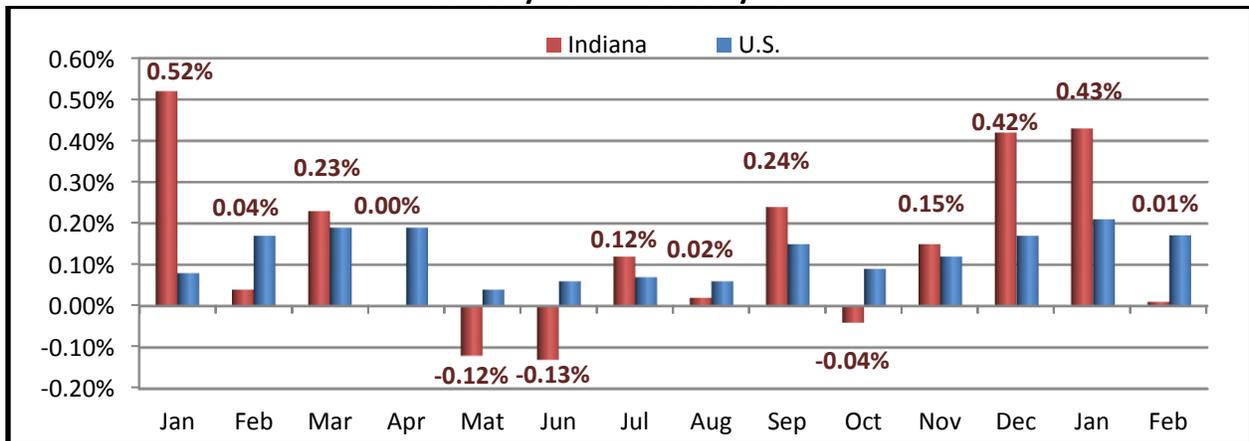
Figure 2.1: Unemployment Rate, Indiana and U.S., January 2011 - March 2012



Source: Economic Policy Institute Analysis of Local Area Unemployment Statistics, February 2012

Figure 2.2 examines the percent of total non-farm employment increases in Indiana versus the U.S., (Indiana is labeled in chart) from January 2011 through February 2012. Average growth over the past year in non-farm employment is 0.13 percent and 0.14 percent for the U.S. and Indiana, respectively.

Figure 2.2: Percent Change in Non-Farm Employment, Indiana and U.S., January 2011 - February 2012

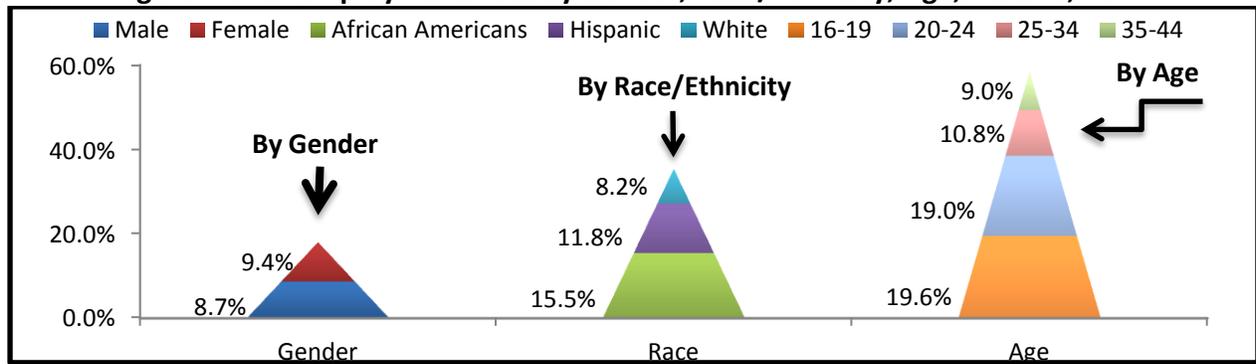


Source: Economic Policy Institute Analysis of Current Establishment Survey, February 2012

As seen in **Figure 2.3**, unemployment trends are not equal in their distribution. In fact, males experience a lower unemployment rate than females. Nationally, 2011 annual averages are 9.4 percent for males and 8.5 percent for females. In regard to race, the unemployment rate of Hispanics is higher than whites; while for African Americans it is nearly double that of whites. Nationally, African Americans have on the average experienced unemployment rates twice that of whites dating back to 1972.¹¹

It is also worth noting that the nation’s future generations of workforce leaders—between the ages of 20 to 34 years old, were hit harder than all age groups. When examined more closely, 20 to 24 year olds in Indiana are experiencing 19 percent unemployment rates—the national average is 14.6 percent. Hoosiers between the ages of 25 and 34 are experiencing unemployment rates of 10.8 percent compared to a national average of 9.5 percent.

Figure 2.3: Unemployment Rate by Gender, Race/Ethnicity, Age, Indiana, 2011

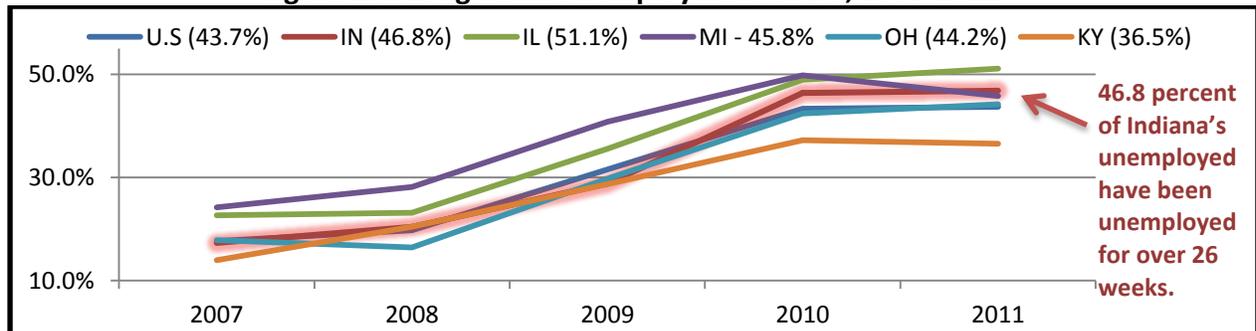


Source: Bureau of Labor Statistics, Geographic Profile of Employment and Unemployment, 2011 Annual Averages

Long-Term Unemployment and Underemployment

In addition to measuring unemployment rates, measuring the length of unemployment can define the severity of the recession. Long-term unemployment share, as measured in **Figure 2.4** is a representation of those who have been unemployed for over 26 weeks. As shown, 46.8 percent of Indiana’s unemployed have been unemployed for over 26 weeks. According to the U.S. Bureau of Labor Statistics, Indiana’s average duration of unemployment in 2010 was 34.7 weeks.

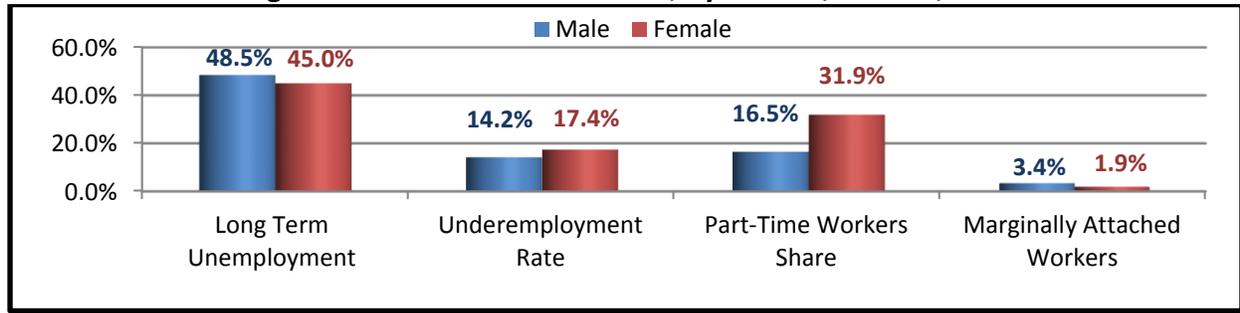
Figure 2.4: Long-Term Unemployment Share, 2007-2011



Source: Economic Policy Institute Analysis of Current Population Survey Data

Figure 2.5 illustrates that male and female workers are experiencing near equal shares of the long-term unemployment—48.5 percent for males and 45 percent for females. However, when measuring underemployment, rates are much more distinct.^k While nearly 23 percent more females are underemployed than males, the components of this measure (part-time workers and marginally attached workers) affect males and females differently—nearly 50 percent more males are marginally attached and nearly 50 percent more females are part-time workers.

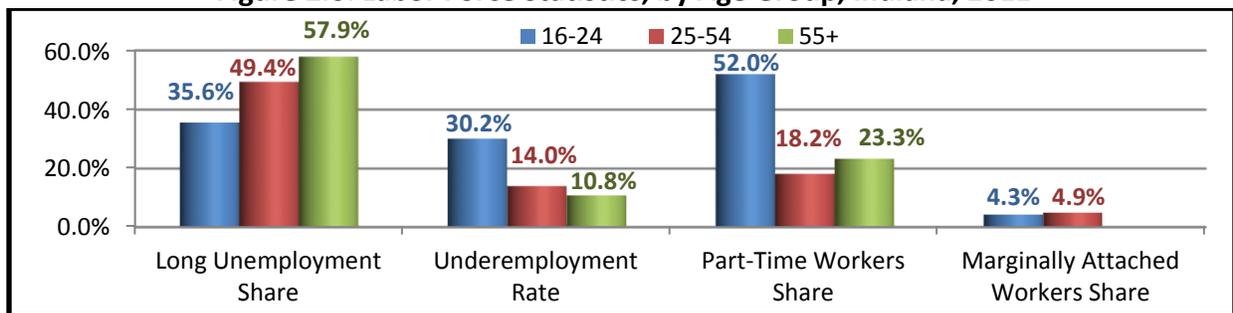
Figure 2.5: Labor Force Statistics, by Gender, Indiana, 2011



Source: Economic Policy Institute Analysis of Current Population Survey Data

According to a survey by Pew Research, unemployment rates among young Americans are at rates not seen since tracking began in 1948. As noted in **Figure 2.6**, these two age brackets, collectively, are also experiencing dramatically high underemployment rates, compared to their elders. The Pew study shows that 49 percent of those ages 18 to 34 years old took jobs they did not want in order to pay their bills. Of those who were unemployed, a third went back to school and a quarter took unpaid internships for experience.¹²

Figure 2.6: Labor Force Statistics, by Age Group, Indiana, 2011

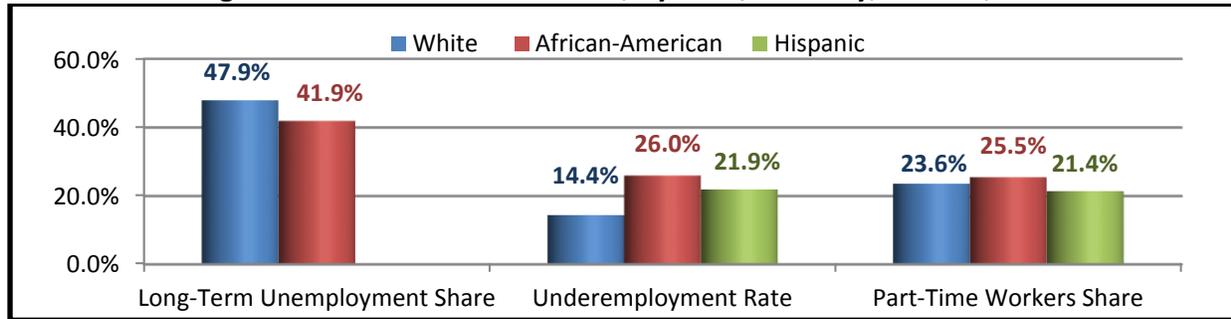


Source: Economic Policy Institute Analysis of Current Population Survey Data

^kUnderemployment combines the unemployed, the marginally attached, and those who are working part-time for economic reasons divided by the civilian labor force plus the marginally attached workers. Marginally Attached individuals are those not in the labor force who want, and are available for work, and who have looked for a job sometime in the prior 12 months (or since the end of their last job if they've held one within the past 12 months), but were not counted as unemployed because they had not searched for work in the four weeks preceding the survey. Discouraged workers (persons not in the labor force who want and are available for work and have looked for work in the past 12 months but who have given up looking because they believe there are no jobs available for them of which they would qualify) and conditionally interested workers (persons who are marginally attached to the labor force but are not in the labor force for reasons other than discouragement, e.g., people who want to work but aren't looking because of child-care reasons) are a subset of the marginally attached.

Figure 2.7 examines labor force statistics by race and ethnicity in Indiana. Although there is not statistically significant data for long-term unemployment for Hispanics, it is clear that African Americans, consistent with exceptionally high unemployment rates, are also experiencing equivalently high underemployment rates.

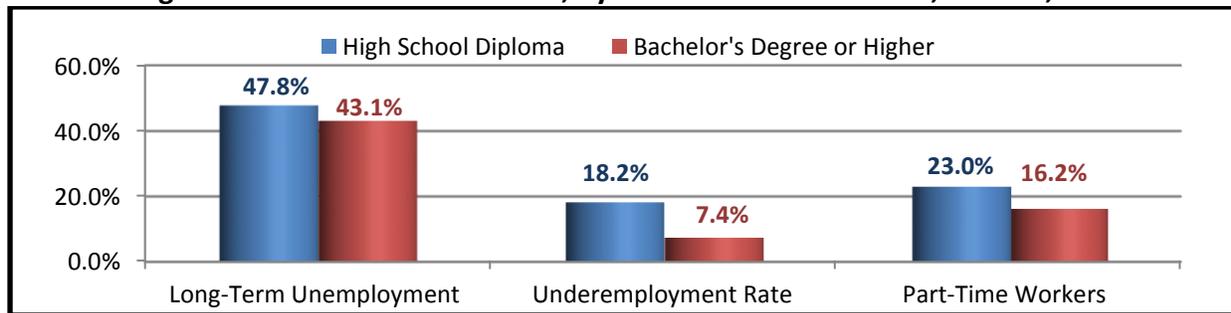
Figure 2.7: Labor Force Statistics, by Race/Ethnicity, Indiana, 2011



Source: Economic Policy Institute Analysis of Current Population Survey Data

Figure 2.8 reviews labor force statistics by educational attainment. While the distinction between the two levels of attainment do not vary greatly in regard to long-term unemployment, those with a bachelor’s degree are experiencing much lower underemployment rates than those with only a high school diploma.

Figure 2.8: Labor Force Statistics, by Educational Attainment, Indiana, 2011



Source: Economic Policy Institute Analysis of Current Population Survey Data

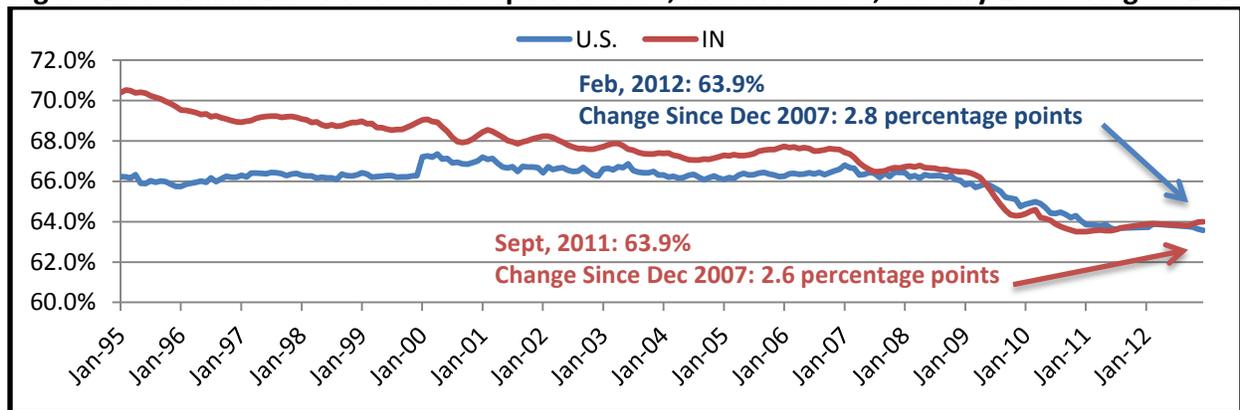
While underemployment has remained fairly constant for the last ten years for those with at least some college or a bachelor’s degree—typically rising with increased unemployment and decreasing thereafter—underemployment has increased exponentially for those with a high school diploma and those without a high school diploma. This data suggests that those without at least two years of education or training past high school are not prepared for the jobs of the 21st Century. Ultimately, this can be a deterrent for job creation.

Labor Force Participation

Another measure of the labor market and the effects of the Great Recession is labor force participation rates (LFPR). The LFPR represents the ratio of the civilian labor force to the total non-institutionalized civilian population 16 years and older and is a useful metric in assessing the overall health of the labor market and recognizing structural changes in the labor force. A high LFPR typically indicates the presence and/or availability of good-paying jobs, leading more people to work or seek work. A declining LFPR typically suggests structural changes in the labor force, such as significant aging of the population or a weakening job market.

In **Figure 2.9**, the LFPR in the U.S. fell by 2.6 percentage points from December 2007 until September 2011. Indiana's LFPR fell 2.8 percentage points, just a fraction more than the national average. However, a more concerning baseline is the significant decline in the LFPR beginning in 1995 onward. This suggests that the strength of Indiana's labor market has been diminishing even prior to the recession.¹ Additionally, when looking strictly at labor force levels, Indiana, along with 17 other states, have experienced absolute declines since the recession began, suggesting long-term stress in the job market. In Indiana, the numbers of workers that have left the labor force since the recession began (23,681) are a fraction of those that have left the labor market in Illinois (129,931), Ohio (157,016) and Michigan (364,186).

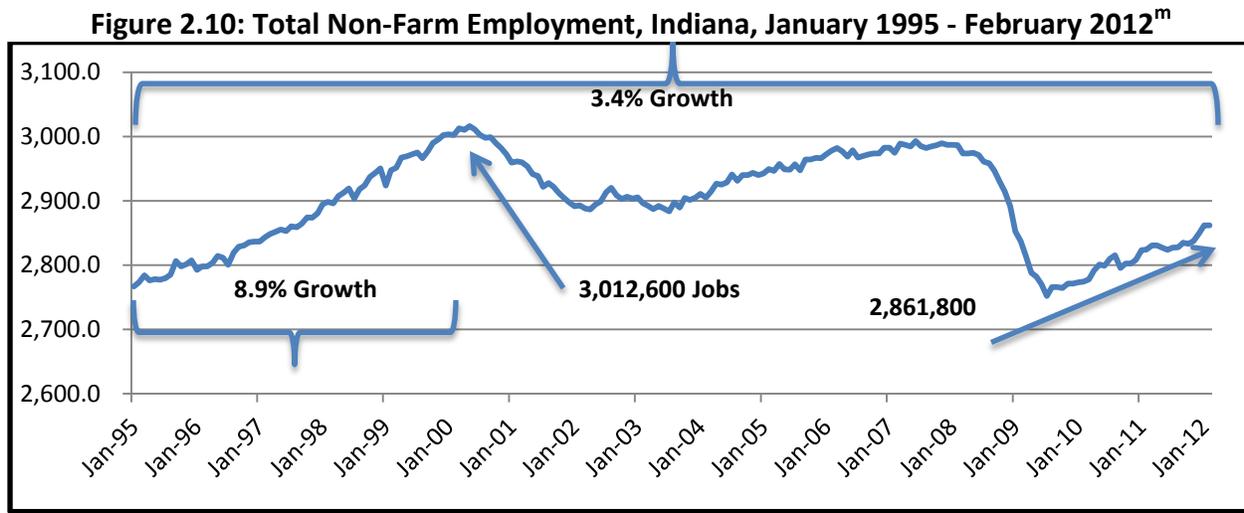
Figure 2.9: Civilian Labor Force Participation Ratio, Indiana & U.S., January 1995 - August 2011



Source: Economic Policy Institute Analysis of Local Area Unemployment Statistics, February 2012

Also noteworthy is the increasing LFPR for those over the age of 55. The Employee Benefits Research Institute (EBRI) has analyzed the “upward trend” for older workers and states that “it is likely to increase because of workers need for access to employment-based health insurance and for more earning years...particularly after the stock market and economy downturn...and have a greater need to work to help make their assets last longer.” Additionally, the report showed that half of all people of ages 65-69 with a bachelor’s degree were still working and one-third of people ages 70-74 with bachelor’s degrees are still working.¹³

Figure 2.10 is a snapshot of non-farm employment from January 1995 through February 2012. Due to the Great Recession, Indiana’s total non-farm employment is currently at levels not seen since the late 1990’s. In this time period, when accounting for all gains and losses (growth and recessions), Indiana has seen a 3.4 percent overall growth in non-farm employment. In the same time period, population has grown 14 percent. Indiana’s most modest job growth occurred from January 1995 through March of 2000—at which point Indiana hit its highest rate of total non-farm employment (3,012,600), representing an 8.9 percent increase, accompanied by a more sustainable 4.1 percent population growth.



Source: Economic Policy Institute Analysis of Current Establishment Survey, February 2012

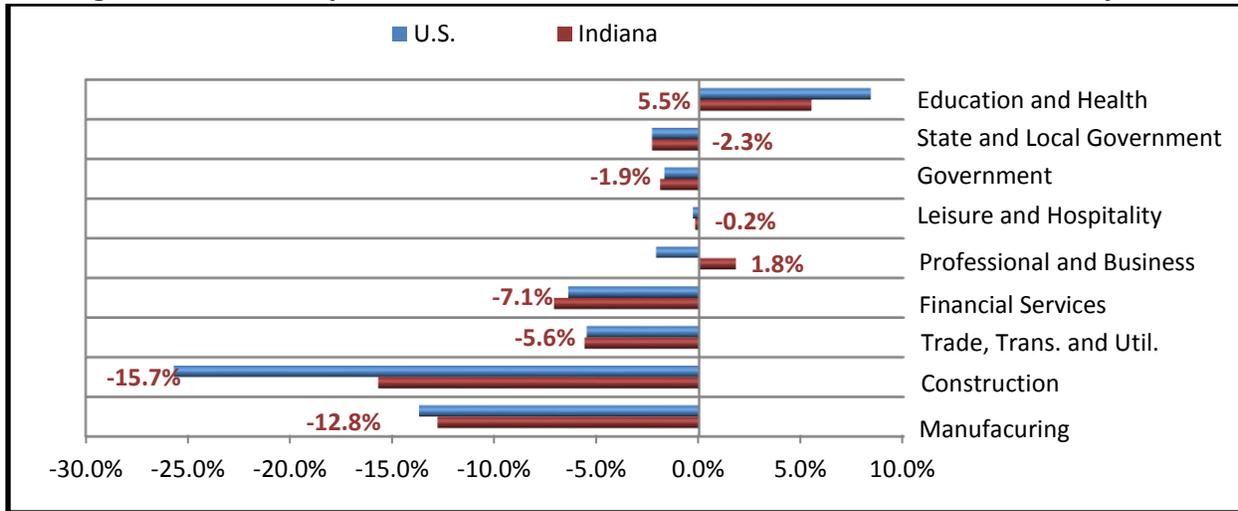
Industry Analysis

Figure 2.11 examines industry performance since the beginning of the Great Recession until February 2012, and **Figure 2.12** examines recent trends in industry performance over the past year. Notably, each industry in Indiana, aside from education & health and professional & business services, has not caught up to pre-recession employment numbers. Manufacturing in Indiana has increased at a rate of 3.7 percent—gaining 17,300 jobs in the past year. Construction in Indiana is growing at a rate faster than all but seven states in the nation.ⁿ Other industries to see significant growth in Indiana in the past year include: education & health (gaining over 3,000 jobs); leisure & hospitality (gaining over 8,000 jobs) and; the professional & business sector (gaining nearly 9,500 jobs).

^mThe non-farm business sector is a subset of the domestic economy and excludes the economic activities of the following: general government, private households, nonprofit organizations serving individuals, and farms.

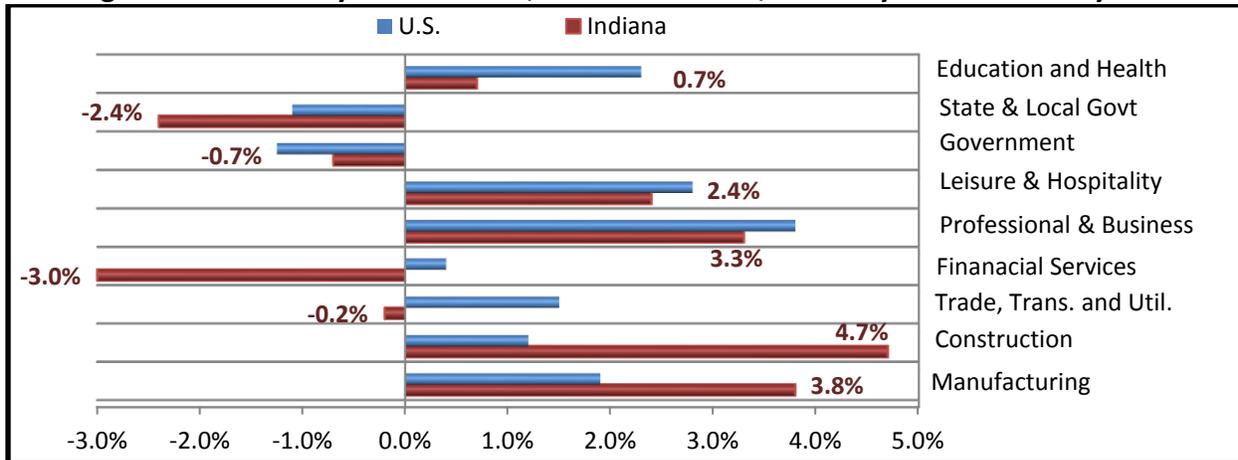
ⁿNote: Due to a lack of statistically significant data, Delaware, Hawaii, Maryland, Nebraska, South Dakota, and Tennessee are not included in the analysis.

Figure 2.11: Industry Performance, Indiana and U.S., December 2007 - February 2012



Source: Economic Policy Institute Analysis of Current Establishment Survey, February 2012

Figure 2.12: Industry Performance, Indiana and U.S., February 2011 - February 2012



Source: Economic Policy Institute Analysis of Current Establishment Survey, February 2012

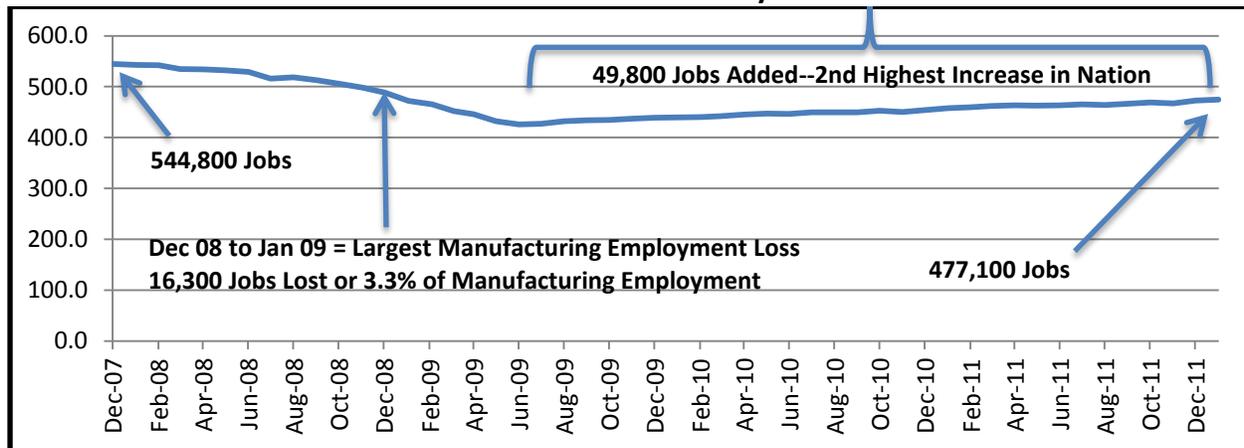
Manufacturing Sector

Because manufacturing is the largest component of Indiana’s economy (accounting for 16 percent of Indiana’s workforce), additional analysis is necessary. As noted previously, Indiana has lost 125,400 jobs since the recession started in December 2007. Of these jobs lost, 67,700 were manufacturing jobs. These manufacturing losses represent 54 percent of all jobs lost. In December 2007, Indiana had 544,800 manufacturing jobs. As of February 2012, Indiana had 477,100 manufacturing jobs.

For comparison, all surrounding states (especially Michigan) suffered major losses in their manufacturing sectors. From the beginning of the recession until February 2012, the state that lost the most manufacturing jobs in numbers was California—a decrease of nearly 200,000 jobs. By this same measure, Ohio ranks 2nd, with a loss of 110,800 jobs. Illinois lost 87,200 jobs, Michigan lost 84,100 jobs, and Indiana (11th) lost 67,700 jobs.

Figure 2.13 illustrates the trends in manufacturing employment in Indiana since the beginning of the recession in December 2007. When looking closer at manufacturing employment, Indiana, aside from Michigan (adding 78,000 jobs), saw the largest increase (49,800) in manufacturing jobs since the recession ended in until February 2012. In the past year, Indiana has seen a net gain in manufacturing jobs of 17,300 jobs—a 3.8 percent gain. The amount of manufacturing jobs Indiana has gained in the past year is a half percentage point higher than the amount of jobs Indiana lost in one month during the height of the recession. In order to get back to pre-recession employment, Indiana would need to add another 67,700 manufacturing jobs.

Figure 2.13: Manufacturing Employment (In Thousands), Indiana, December 2007 - February 2012



Source: Economic Policy Institute Analysis of Current Establishment Survey, February 2012

While not all of the manufacturing jobs are coming back, the Brookings Institution recently argued that the decline in manufacturing is the result of policy choices and that “public policy is needed to help strengthen manufacturing and promote a high-wage innovative export-intensive and environmentally sustainable manufacturing base.”

The report goes on to state that American manufacturing needs strengthening in four areas: “research and development; lifelong training of workers at all levels; improved access to finance; and an increased role for workers and communities in creating and sharing in the gains from improved manufacturing.”¹⁴

As a matter of public policy, it is also important to note that because concerns over the debt and banking crisis in Europe still exist, manufacturing in Indiana is especially vulnerable to its reliance on exports. According to the International Trade Association, nearly one quarter (22 percent) of Indiana manufacturing workers depend on exports for their jobs. Providing additional uncertainty for exports, and in turn, manufacturing, the emerging markets of China and India have slowed growth forecasts for 2012 by more than a percentage point.

Chapter 2 Policy Recommendations

The following policies are recommended to assist those facing barriers to employment, and improve the economic health of Hoosier families:

- ✓ ***Establish a Work Sharing Program***—Work sharing (also known as Short-Time Compensation) is an Unemployment Insurance (UI) benefit that explicitly targets job preservation and allows businesses to retain their skilled workforce during times of temporary decreased demand.
- ✓ ***Outreach to Employers on the Work Opportunity Tax Credit to Increase Employment Opportunities for Populations Who Face Significant Employment Barriers***—The Work Opportunity Tax Credit (WOTC) is a Federal tax credit for private-sector businesses for hiring individuals from nine target groups who have consistently faced significant barriers to employment.
- ✓ ***Tax Credits for Businesses Hiring Unemployed Workers***— Employers and staffing firms continue to expressly deny job opportunities to those workers hardest hit by the economic downturn, despite increased scrutiny and strong public opposition to the practice.
- ✓ ***Extend Unemployment Benefits to Part-Time Workers***— Indiana had 770,690 part-time workers in 2009 (26.8 percent of the labor force). The vast majority were female. The wages of part-time workers are subject to UI payroll and other employment taxes on the same basis as the wages of full-time employees.
- ✓ ***Invest in Indiana's Infrastructure for the State to Remain Economically Competitive***—Research continues to point to public investment as a way to increase private-sector productivity and GDP growth.¹⁵ According to The Report Card for America's Infrastructure, 25 percent of bridges are structurally deficient, \$4.03 million is needed for drinking water infrastructure, and the state has \$5.86 billion in wastewater infrastructure needs.¹⁶ Indiana needs to make such investments if it wants to attract quality jobs and remain economically competitive in a global economy.

*For a full set of the Institute's policy recommendations and further details on these policy recommendations, see **Appendix A**.*

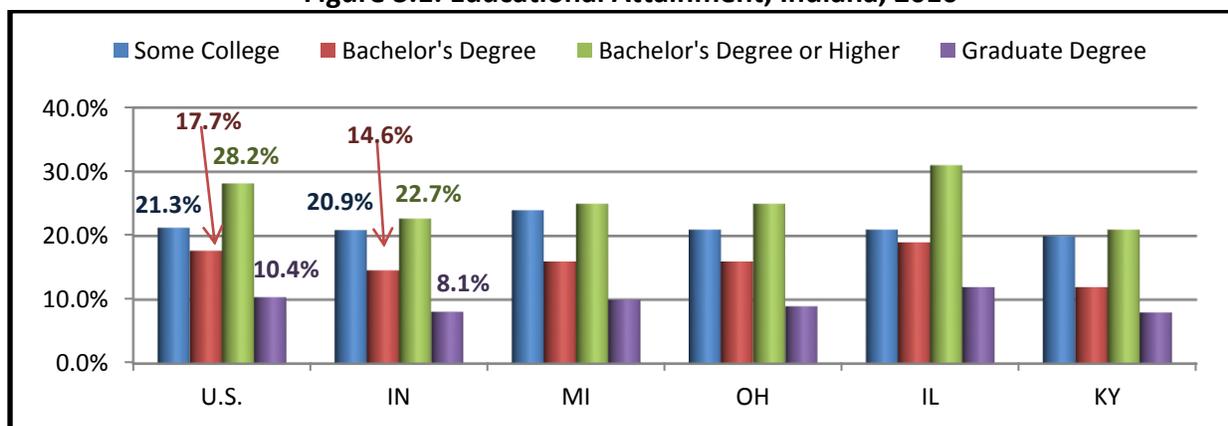
Chapter 3: Educational Attainment

Although the state has lost jobs across all skill levels due to the economic downturn, this has not fundamentally changed the structure of Indiana’s labor market. The majority (55 percent) of all jobs are still middle-skill jobs—requiring more than a high school diploma, but less than a four year degree. Additionally, many of the new jobs in health care, life sciences and the green-energy sectors will require middle-skill credentials.

Educational attainment is not only critical to a skilled work force, but is also a major component to increasing wages and decreasing poverty. Thus, it’s important to look at the status of postsecondary educational attainment and Indiana’s human capital. Additionally, it’s important to look at how well graduates are being financially rewarded post-graduation.^{o,p}

Shown in **Figure 3.1**, only 14.6 percent of Hoosiers over the age of 25 have a bachelor’s degree—ranking Indiana as 42nd in the nation. Only 22.7 percent of Hoosiers over 26 years old have education beyond a bachelor’s degree (bachelor’s degree or higher)—ranking Indiana 43rd in the nation. Finally, only 8.1 percent of Hoosiers over the age of 25 possess a graduate degree—ranking Indiana 39th in the nation. With 60 percent of graduates leaving the state, Indiana cannot afford low educational attainment levels and sub-par wages.

Figure 3.1: Educational Attainment, Indiana, 2010



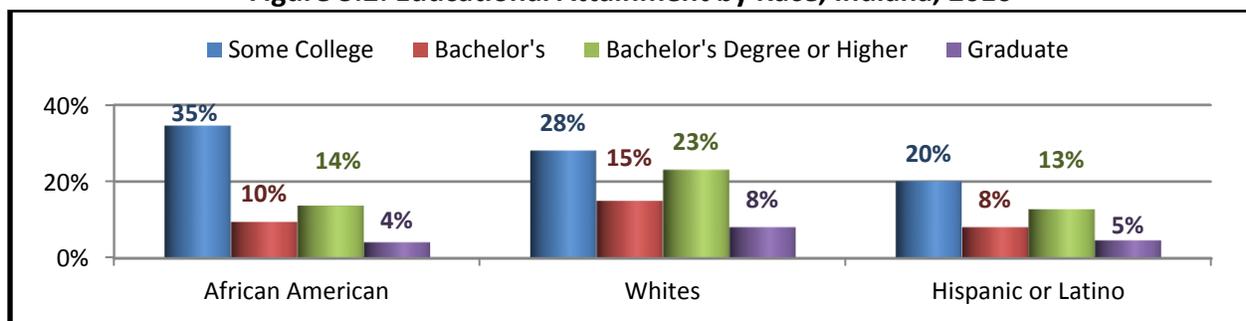
Source: U.S. Census Data, 2010 American Community Survey, One Year Estimates

Figure 3.2 examines the educational attainment differences between African Americans, whites, and Hispanics or Latinos above the age of 25. Relative to the national averages, Indiana falls below the mark in three of four categories—bachelor’s degree, bachelor’s degree or higher (for example, a bachelor’s degree and a certificate) and graduate education.

^oIndiana is regarded as a leader in manufacturing, transportation, and logistics. Manufacturing alone contributes \$64 billion to the state’s economy each year, and with the most pass-through interstates in the country, Indiana is critical to the nation’s freight and cargo distribution network.

^pTo see the Institute’s policy brief on Middle Skill Jobs, please visit: http://www.incap.org/documents/iwof/2011/Final%20Middle%20Skill%20Jobs_8-30.pdf

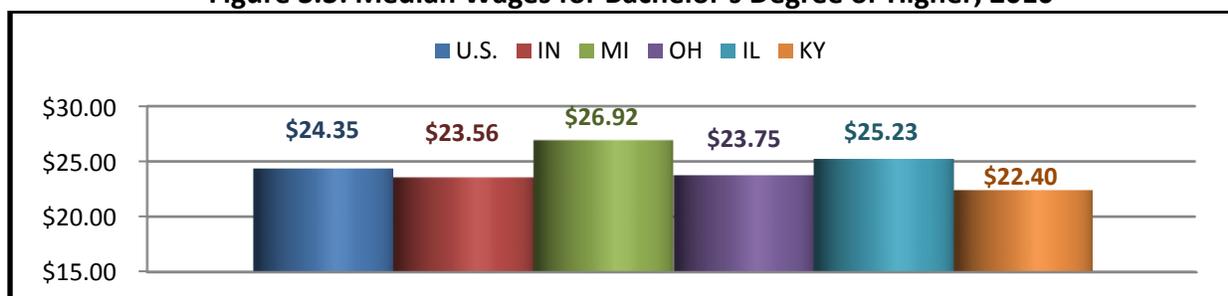
Figure 3.2: Educational Attainment by Race, Indiana, 2010



Source: U.S. Census Data, 2010 American Community Survey, One Year Estimates

As mentioned previously, educational attainment levels among Hoosiers are some of the lowest in the nation. For those with a bachelor's degree or higher, that stay in Indiana, the decreasing income story is the same—they are working harder for less. **Figure 3.3** illustrates that Hoosiers with higher educational attainment levels are only making \$23.56 per hour, compared to the national average of \$24.35. Only Kentucky's wages for citizens with educational levels of bachelor's degree or higher are lower, when compared to surrounding states.

Figure 3.3: Median Wages for Bachelor's Degree or Higher, 2010



Source: Economic Policy Institute Analysis of Current Population Survey Data

Ultimately, of the 30 percent of families that are low-income, 52 percent are lacking the educational foundation to achieve and maintain self-sufficiency. That is, no parent in these households has at least some college. By removing some of the barriers that low-income families face in obtaining an education, more Hoosiers could get the education or training they need to support their families and become economically self-sufficient. By removing these barriers, Indiana can also increase its supply of skilled workers, who with 1 to 4 years of training and far less cost, can earn as much as those with traditional post-secondary degrees.¹⁷

Although Indiana has made significant investments in education and training for its workforce, those investments have not kept up with demand for middle-skill workers. As such, Indiana's low postsecondary education attainment rates threaten a sustainable long-term recovery. Addressing the need for middle-skill workers will require attention not only to educational opportunities for young people, but also for those already in the workforce—nearly two-thirds of the people who will be in Indiana's workforce in the year 2020 were already working adults in 2005—long past the traditional high school-to-college pipeline.

Chapter 3 Policy Recommendations

The following are policy recommendations to ensure access to basic skills and post-secondary education opportunities that will increase employability and earnings for all Hoosiers:

- ✓ ***Expand the Number of Certificate Programs Eligible to Receive State Financial Aid Dollars***—For some adults, enrolling in a certificate program is a perfect introduction to the college process. Certificate programs are relatively inexpensive and short-term. Most certificate program coursework can also be transferred as credits toward an associate’s degree. Students, who have a successful experience with a certificate program, and see a wage increase as a result of their certificate, are more likely to obtain more certificates or go on to earn an associate’s degree. Therefore, funding certificate programs has a positive effect on access and affordability.
- ✓ ***Implement Lifelong Learning Accounts (LiLAs) for Targeted Industrial Sectors***—Lifelong Learning Accounts (LiLAs) assist adult workers to achieve their career goals. LiLAs are employer-matched, portable, and employee-owned accounts used to finance education. LiLAs allow workers and employers to effectively leverage resources to increase productivity, improve recruitment and retention, and meet the changing needs of our economy.
- ✓ ***Increase Financial Aid for Part-Time College Students***—Of the adult students enrolled in Indiana’s postsecondary institutions, 82 percent were part-time. Yet, only 2.1 percent of state grant expenditures were applied to adult students. The increased participation among part-time students is representative of the economy, and should be accompanied by additional financial support. Part-time students should have the same access to adequate financial aid that our full time students enjoy.
- ✓ ***Change Indiana’s March 10th Application Filing Deadline for State Financial Aid***—Missing the March 10th state financial aid deadline application disqualifies students from receiving state financial aid until the next academic year. Setting a new deadline later in the year will provide more time for students to determine if they will enroll in college and to file tax returns before filing a FAFSA. This could improve numbers of adult students who apply for and receive financial aid.

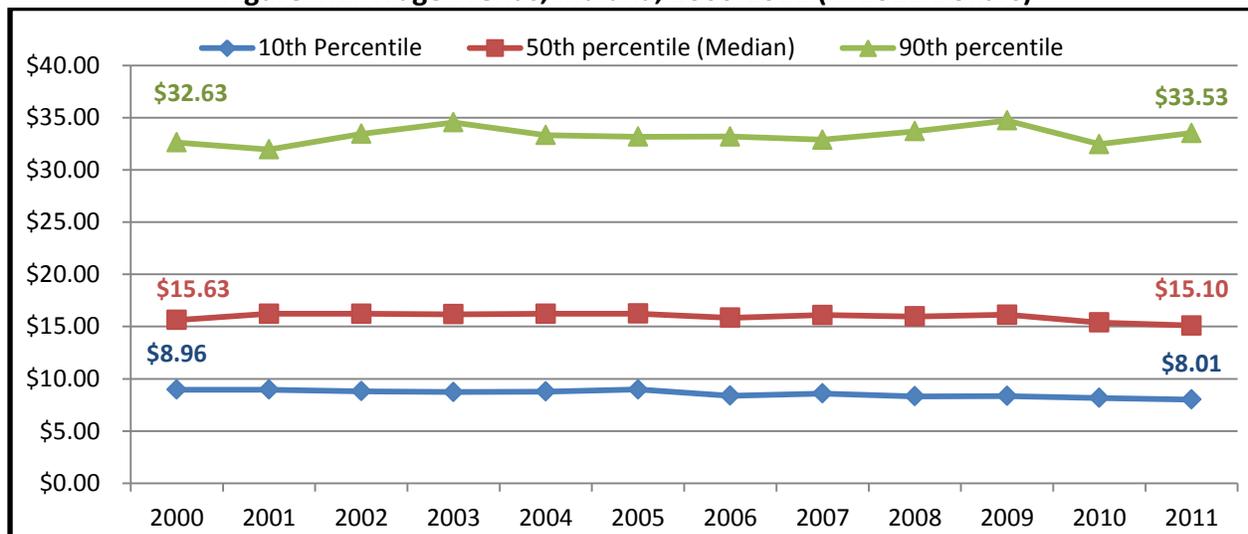
*For a full set of the Institute’s policy recommendations and further details on these policy recommendations, see **Appendix A**.*

Chapter 4: Wages

An important component of economic recovery is maintaining wages. Since income fuels consumer spending, which constitutes 70 percent of the economy, a loss of income will certainly dampen recovery efforts. As stated in previous reports by the Institute,^q Hoosier workers and families have experienced a backslide in wages, now earning only \$0.85 on the dollar compared to the rest of the nation. This equates to \$34,042 annually compared to the national average of \$39,945, which is the 41st lowest in the nation. Indeed, working families in Indiana face an uphill battle as they struggle to do more, with less.

Figure 4.1 illustrates hourly wages of Hoosier workers. Since 2000, wages have decreased for both the 50th percentile and the 10th percentile, by 3.4 percent and 10.6 percent, respectively. During the same time period, those in the 90th percentile have seen a 2.8 percent increase. Since 1979, wages for the 10th percentile have decreased by 6 percent, wages for the 50th percentile have increased by 0.2 percent and wages for the 90th percentile have increased by 20 percent.

Figure 4.1: Wage Trends, Indiana, 2000-2011 (in 2011 Dollars)^r



Source: Economic Policy Institute Analysis of Current Population Survey Data

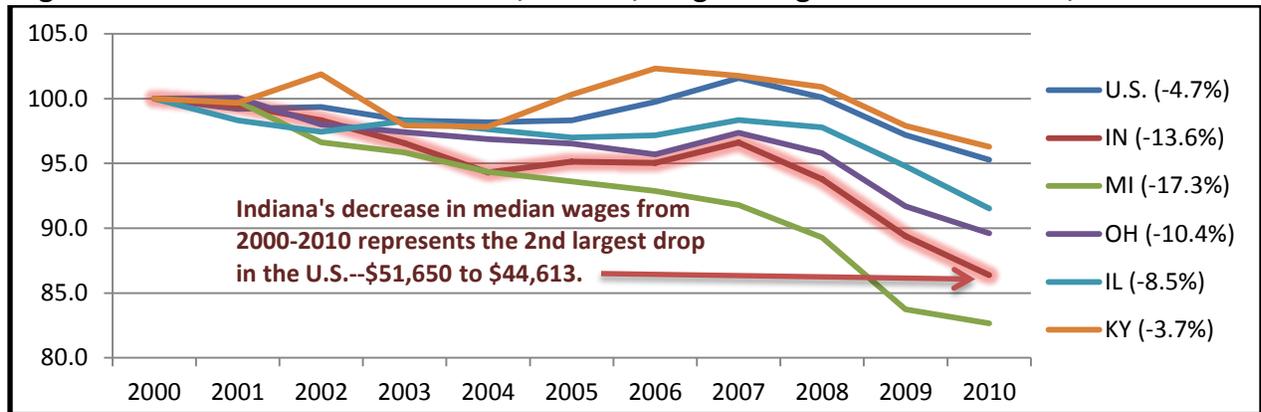
^qAs a forewarning, the Institute’s 2005 *Status of Working Families* report noted that: As high paying manufacturing jobs have disappeared, the average earnings per job in manufacturing was \$64,898 compared to \$38,060 for all jobs

^rPercentiles: At 10th percentile, 10 percent of the population earns below the stated wage and at 90th percentile, 90 percent of the population earns below the stated wage.

Median Household Income

Figure 4.2 shows that Median Household Income (MHI) for Hoosiers fell by 13.6 percent in the past decade—from \$51,650 to \$44,613. Only trailing Michigan (17.3 percent decrease), Indiana has seen the 2nd largest decrease in the U.S.—nearly tripling the national average (4.7 percent decrease). Percentage decreases for Indiana’s neighboring states and the U.S. are depicted in the chart legend.

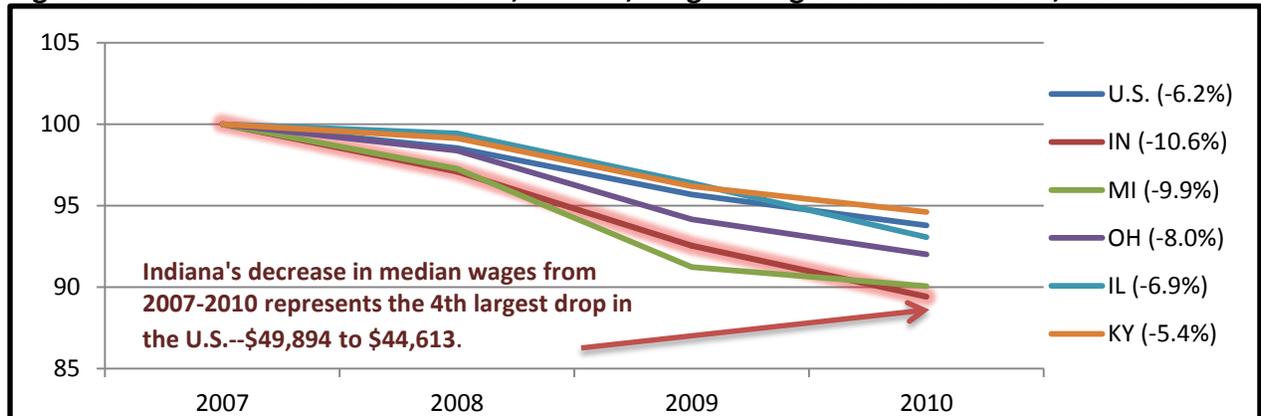
Figure 4.2: Median Household Income, Indiana, Neighboring States and the U.S., 2000 - 2010^s



Source: Economic Policy Institute Analysis of Current Population Survey Data (Indexed, January 2000=100%)

Figure 4.3 measures MHI since the recession began. Unfortunately, the story is not much better, with Hoosiers seeing the 4th largest decrease in the nation—from \$49,894 to \$44,613. This represents a 10.6 percent decrease—the national average is a 6.3 percent decrease.

Figure 4.3: Median Household Income, Indiana, Neighboring States and the U.S., 2007 - 2010

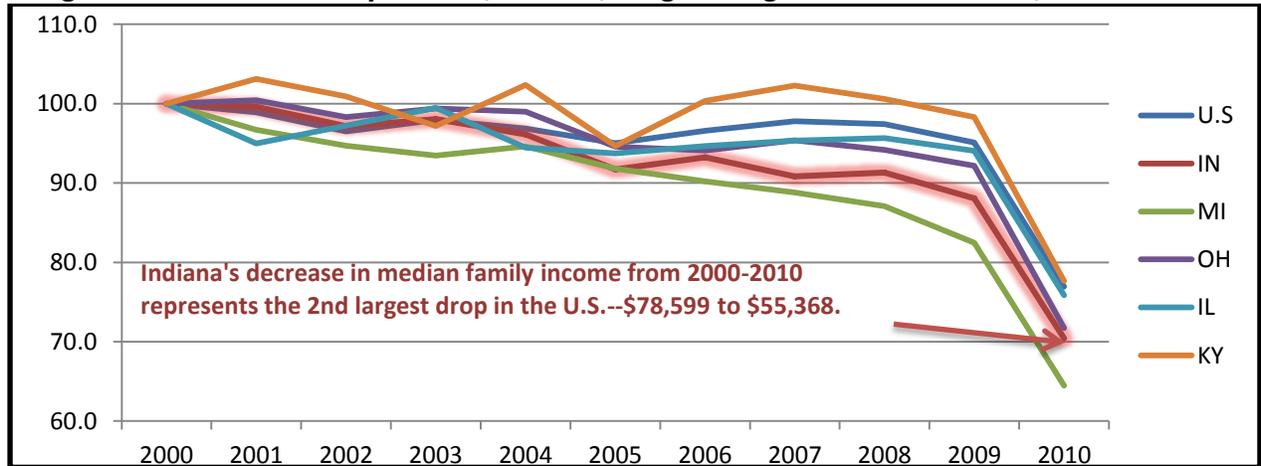


Source: Economic Policy Institute Analysis of Current Population Survey Data (Indexed, January 2007=100%)

^sHousehold Income is the sum of money income received in the calendar year by all household members 15 years old and over, including household members not related to the householder, people living alone, and other nonfamily household members. Included in the total are amounts reported separately for wage or salary income; net self-employment income; interest, dividends, or net rental or royalty income or income from estates and trusts; Social Security or Railroad Retirement income; Supplemental Security Income (SSI); public assistance or welfare payments; retirement, survivor, or disability pensions; and all other income.

From 2000 to 2010, the Median Family Income (MFI) in Indiana fell by 29.6 percent (\$78,599 to \$55,368); representing the 2nd largest decrease in the nation—see **Figure 4.4**. Of neighboring states, Indiana only fared better than Michigan. Nationally, the average decrease was 23.1 percent.

Figure 4.4: Median Family Income, Indiana, Neighboring States and the U.S., 2000 — 2010

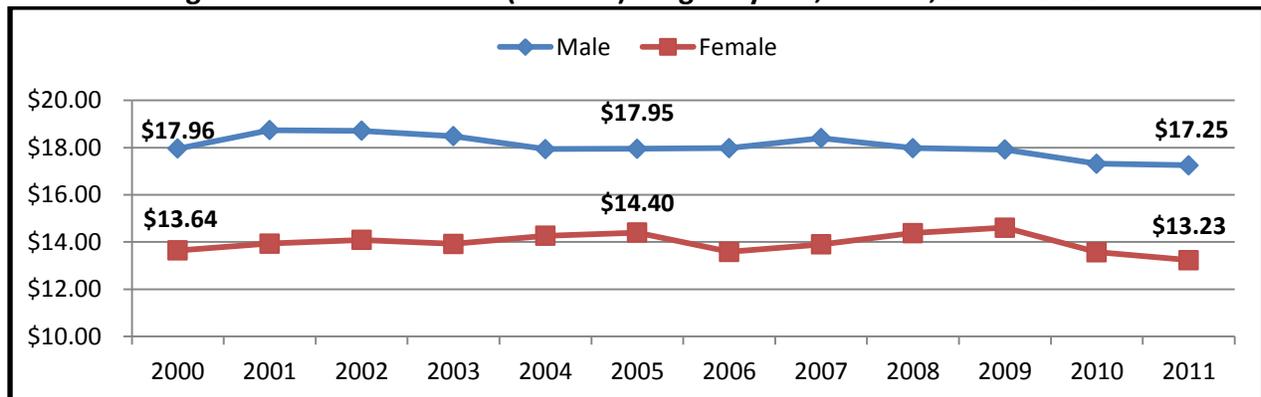


Source: Economic Policy Institute Analysis of Current Population Survey Data (Indexed, January 2000=100%)

Median Wages by Demographic

As detailed in **Figure 4.5**, income distribution continues to be unequal between males and females. Since 2000, the average difference in pay between males and females has been \$4.09. In the same time period, males have seen a 4 percent decrease while females have experienced a 3 percent decrease. While the national gender gap in pay has been steadily decreasing since the 1970's, Indiana's gender gap is still lagging, at 41st in the nation—which means the typical woman in Indiana working full time, year round was paid only \$0.72 to every dollar paid to an equivalent man.¹⁸

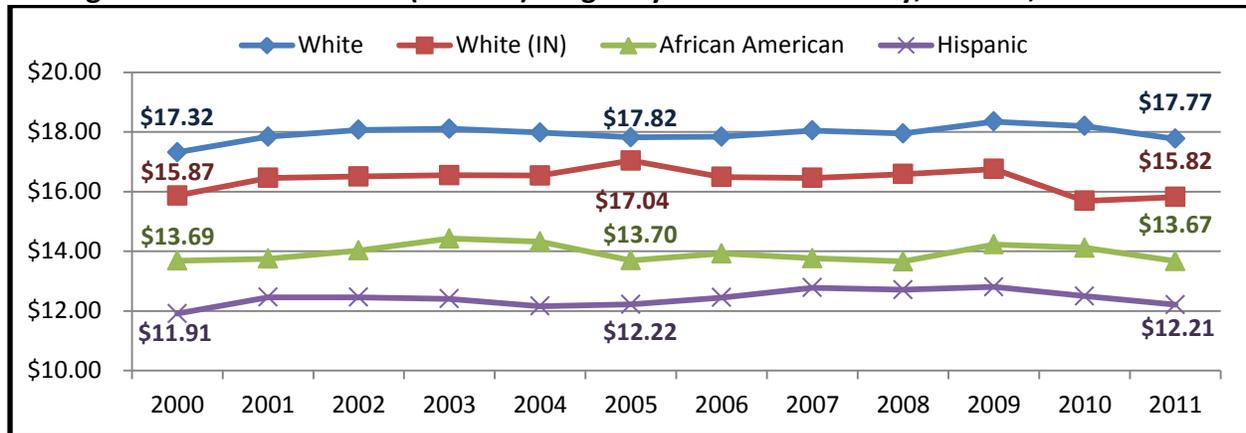
Figure 4.5: 50th Percentile (Median) Wages by Sex, Indiana, 2000 - 2011



Source: Economic Policy Institute Analysis of Current Population Survey Data

Figure 4.6 represents median wages by race and ethnicity. Because there is not a sufficient sample size for African Americans and Hispanics in the U.S. Census Bureau Current Population Survey (CPS) state data, the data points represent national data. However, data for white Hoosiers is shown for comparison. As illustrated, wages are not equal between race and ethnicities in the nation. Since 2000, wages for whites increased by \$0.55 (2.6 percent increase) and wages have increased for Hispanics by \$0.03 (2.5 percent). However, wages for African Americans decreased by \$0.02 (0.1 percent) in the same time period.

Figure 4.6: 50th Percentile (Median) Wages by Race and Ethnicity, Indiana, 2000 - 2011

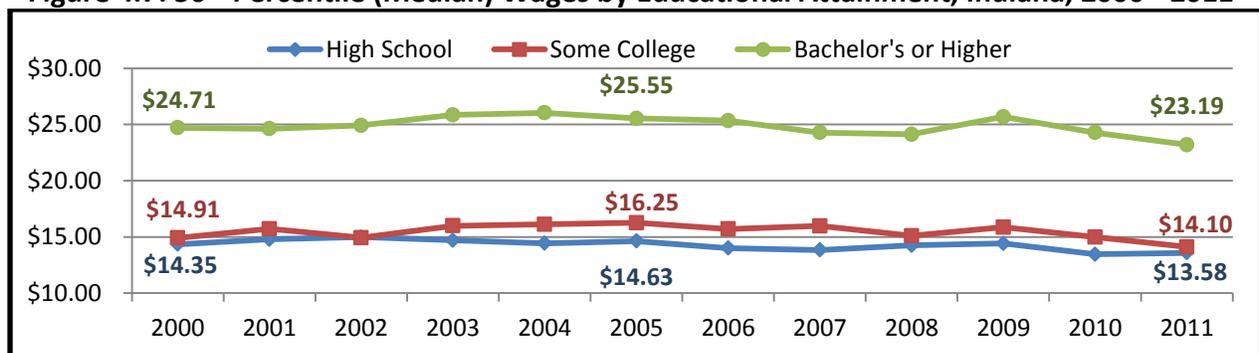


Source: Economic Policy Institute Analysis of Current Population Survey Data

Figure 4.7 displays median wages by educational attainment level—high school diploma or equivalent, some college, and bachelor’s degree or higher. As illustrated, Hoosiers with a bachelor’s degree of higher continue to make, on average, 75 percent more in wages compared to those with only a high school diploma.

The erosion in wages has also been spread across educational attainment, whereas those with only a high school diploma or equivalent have experienced a 5.4 percent decrease, those with some college have also experienced a 5.4 percent decrease, and those with a bachelor’s degree or higher have experienced a 6.2 percent decrease in wages.

Figure 4.7: 50th Percentile (Median) Wages by Educational Attainment, Indiana, 2000 - 2011

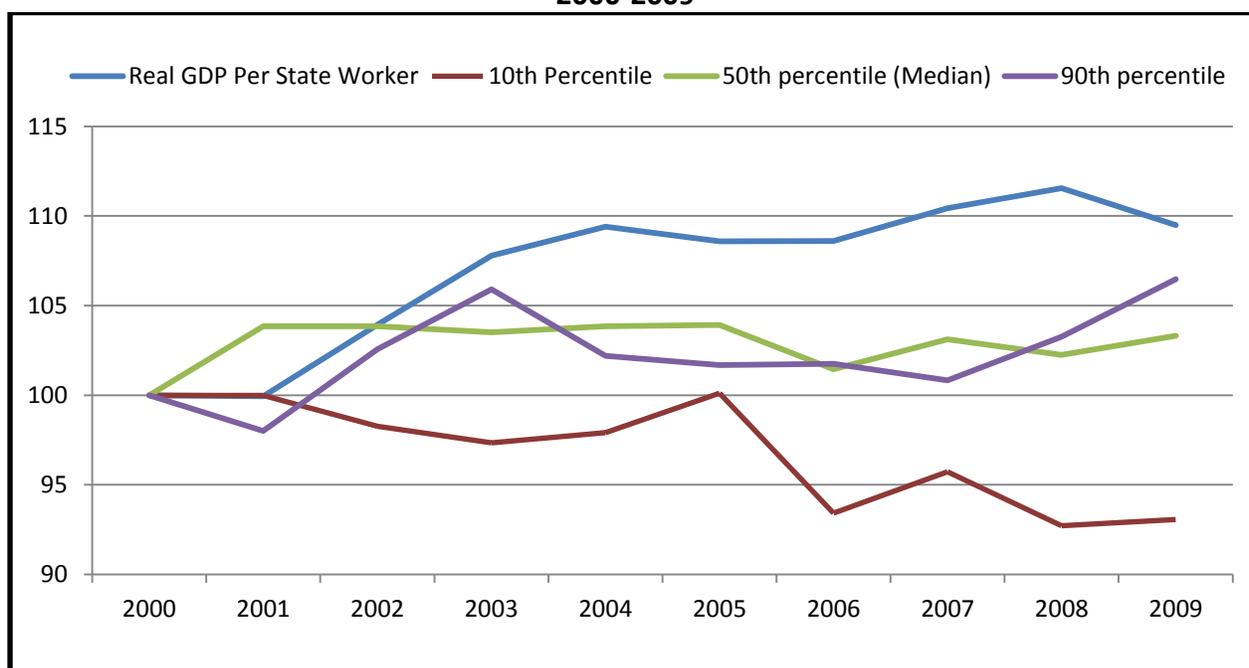


Source: Economic Policy Institute Analysis of Current Population Survey Data

Wage-Productivity Gap

Running counter-intuitively to the decrease in wages is the increase in productivity from Hoosier workers. **Figure 4.8** illustrates (in Indiana) what economists refer to as the “wage-productivity gap”—that is, the gap between real wages and productivity. While productivity in Indiana is increasing at a rate faster than most of the nation, wages have not kept up.^{19,t} Productivity, as measured by GDP per state worker has increased by over 14 percent. In the same time period (2000-2009), wages for the bottom 10th percentile have decreased by 6.9 percent, wages for the 50th percentile (median) have increased by 3.3 percent, and those in the 90th percentile have seen an increase more equivalent to productivity increases, at 6.5 percent growth. This data indicates that workers are not sharing in the increased revenues businesses are experiencing due to productivity gains. This trend has been true for both public and private sector workers and college graduates. Economists from the Economic Policy institute (EPI) note that causes for this gap include; weakened worker bargaining power, inflation, the cost of health benefits and productivity growth.²⁰

Figure 4.8: Real Gross Domestic Product (GDP) by State Worker and Wage Trends, Indiana, 2000-2009^u



Source: Economic Policy Institute Analysis of Current Population Survey Data & Bureau of Economic Analysis, U.S. Department of Commerce

^tIndiana falls within 1st quintile (4.6 percent growth), Michigan falls within 4th quintile (2.9 percent growth), Ohio falls within 3rd quintile (2.1 percent growth), Illinois falls within 2nd quintile (1.9 percent growth), and Kentucky falls within 1st quintile (3.2 percent growth).

^uOnly New York and North Dakota saw higher rates of growth than Indiana. 5.1 percent and 7.1 percent growth, respectively.

Income Distribution

Figure 4.9 provides a snapshot of distribution among income-groups across the state. Most notably, Indiana lacks a sizable population of high-income earners—those above \$100,000. Moreover, close to 60 percent of graduates exit the state.

Figure 4.9: Income Group Distribution, Indiana and Neighboring States, 2010

| | U.S. | Illinois | Indiana | Kentucky | Michigan | Ohio |
|------------------------|-------|----------|---------|----------|----------|-------|
| Less than \$10,000 | 7.6% | 7.1% | 7.6% | 10.3% | 8.4% | 8.5% |
| \$10,000 to \$14,999 | 5.8% | 4.9% | 5.9% | 8.1% | 6.2% | 6.2% |
| \$15,000 to \$24,999 | 11.5% | 11.0% | 13.0% | 14.0% | 12.9% | 12.7% |
| \$25,000 to \$34,999 | 10.8% | 10.2% | 12.5% | 12.2% | 11.5% | 11.7% |
| \$35,000 to \$49,999 | 14.2% | 13.8% | 15.9% | 14.9% | 15.3% | 15.3% |
| \$50,000 to \$74,999 | 18.3% | 18.4% | 19.2% | 17.5% | 18.9% | 18.8% |
| \$75,000 to \$99,999 | 11.8% | 12.6% | 11.6% | 10.4% | 11.2% | 11.5% |
| \$100,000 to \$149,999 | 11.8% | 12.9% | 9.7% | 8.4% | 10.1% | 10.0% |
| \$150,000 to \$199,999 | 4.2% | 4.6% | 2.5% | 2.3% | 3.1% | 2.9% |
| \$200,000 or more | 3.9% | 4.4% | 2.1% | 2.0% | 2.4% | 2.4% |

Source: Economic Policy Institute Analysis of Current Population Survey Data

State surpluses do not make up for this erosion in wages. Unfortunately, policy decisions do continue to enhance these losses. In 2011, Indiana state policymakers passed a preemption prohibiting local units of government from enacting minimum wages that exceed the state or federal minimum wage.

Additional steps were taken in 2012 that put declining Hoosier incomes in further jeopardy. Proponents of the newly enacted “Right to Work” law claimed that it would encourage job growth. However, income growth and job growth should be considered in tandem. Considering the dire state of the economy for working families in Indiana, research suggesting further income erosions should have been given greater weight during the debates.²¹ Indiana legislators should find ways to not only make Indiana attractive to business, but also to families, workers, and the youngest and brightest college graduates.

Minimum Wage

Further adding to the erosion of wages is the stagnant federal minimum wage. The federal minimum wage of \$7.25 (last increased in July 2009) has not kept pace with inflation and increasing costs of basic needs such as housing, utilities, food, and health care. When comparing the value of the minimum wage today with the minimum wage in 1968, and inflate it to 2011 dollars, the 1968 minimum wage would equate to \$10.34—\$3.09 higher than the current minimum wage.²² This means that one person working full-time (40 hours per week, 52 weeks per year) at the minimum wage would have wages below the Federal Poverty Guidelines. Currently, 26 percent of the country’s workforce, or 35 million Americans, earn less than \$10.55 an hour.²³ See **Figure 4.10**.

Figure 4.10: Annualized Value of 2009 and 1968 Minimum Wage (in 2011 Dollars) Compared to 2011 Federal Poverty Guidelines

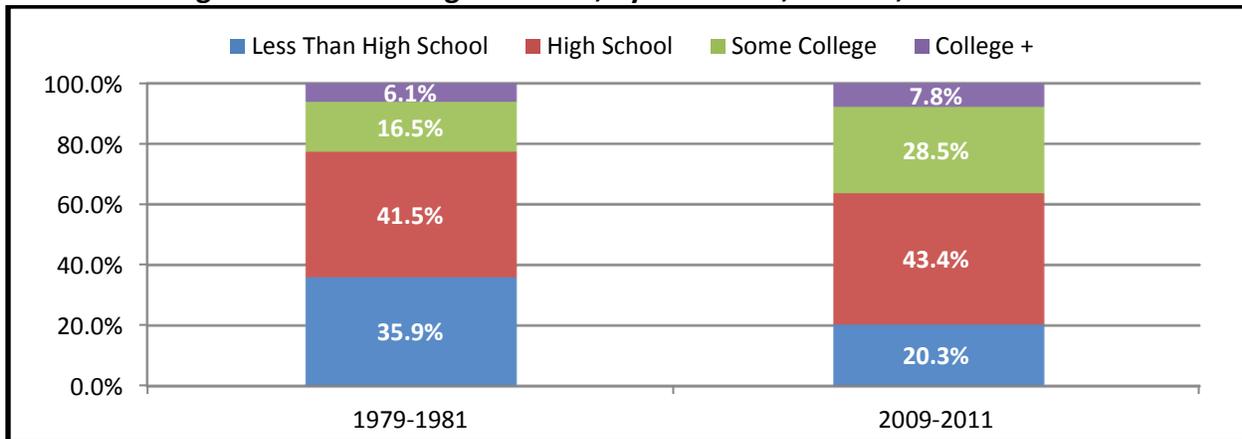


Source: Author Calculations of Minimum Wage by 2080 Hours and U.S. Department of Health and Human Services, 2011 Federal Poverty Guidelines

Furthermore, low-wage workers are increasingly becoming older and better educated than they were in past decades. Even if the cost of living would have remained the same over the last 30 years, the earnings of low-wage workers should have increased.

As shown in **Figure 4.11**, the educational attainment of low-wage workers has risen dramatically. Specifically, those with some college education made up 16.5 percent of the low-wage workforce in 1979-1981. By 2011, this had increased to 28.5 percent—a 73 percent increase. Nationally, this demographic increased from 19.5 percent to 33.3 percent of the low-wage workforce—a 71 percent increase. The share of low-wage workers with a high school education decreased in Indiana by 43 percent and nationally by 50 percent. Additionally, according to the Center on Economic and Policy Research, “between 1979 and 2011, the average age of low-wage workers (defined as earning \$10.00 per hour or less in 2011 dollars) increased 2.3 years, from 32.3 to 34.9 years old. The rise in the average age reflects a drop in the share of low-wage workers who are teenagers – from over one-in-four (26.0 percent) in 1979 to less than one-in-eight (12.0 percent) in 2011.”²⁴

Figure 4.11: Low-Wage Workers, by Education, Indiana, 1979 — 2011



Source: Economic Policy Institute Analysis of Current Population Survey Data

Indiana's Regressive Tax System

A tax burden is the percentage of income that an individual pays in income tax, payroll tax, sales tax, property tax, and other taxes. Whether a state tax system tends to be progressive or regressive depends on the type of taxes relied upon and the way those taxes are designed. A regressive tax system is one where the share of family income devoted to taxes rises as income decreases.

Indiana's tax system is regressive as it relies heavily on a state sales tax, set at a 7 percent rate, and a flat income tax set at 3.4 percent for taxpayers at all income levels. Reliance on other consumption taxes, "sin taxes" and gambling revenues also increase the burden on lower income taxpayers.

Taxing the incomes of working-poor families runs counter to decades of efforts by policymakers to help families work their way out of poverty. Paying \$100 to \$500 in income taxes can make a big difference to a family struggling to escape poverty. Additionally the tax burden placed on low-income families reduces their take home pay (after taxes). Having less money in an economy where costs on basic needs like food and health care continue to rise makes it harder to make ends meet.

The federal government has recognized this and has exempted such families from the income tax since the mid-1980s, and a majority of states now do so as well. Since 1991, the number of states with income taxes on working-poor families of four has fallen from 24 to 15. Indiana is one of these 15 states.²⁵ Two-parent families of four that are at or below the Federal Poverty Guidelines (FPG)—\$22,350 for a family of four in 2011 pay income taxes in Indiana of \$108 a year.²⁶ However, this is an improvement since 2009 when a two-parent family of four earning less than three-quarters of the Federal Poverty Guidelines in 2008 (\$16,513 for a family of four) paid more than \$200 a year in state income taxes in Indiana. This is due to a 2010 increase in the state Earned Income Tax Credit (EITC) to 9 percent of the federal EITC.

Chapter 4 Policy Recommendations

The data in this chapter shows that Indiana's wages continue to lag the national average. The following are policy proposals to decrease the tax burden for low-income workers and increase wages for all Hoosiers:

- ✓ ***Raise the State's Minimum Wage and Index to Inflation***—Minimum wage would be \$10.38 if it had kept pace with inflation over the past 40 years. Raising the minimum wage nationally to \$10.38 will help restore consumer spending which drives our economy and that local business need to grow and would create 160,000 jobs alone—as minimum wage workers spend most or all of their income.²⁷ Additionally minimum wage workers are disproportionately women and minorities whose wages are even lower than males both in Indiana and nationally. Currently 17 states have minimum wages (ranging from \$7.40 to \$9.04 an hour) that are higher than the federal minimum wage rate of \$7.25 an hour.²⁸ Additionally, 10 of these states have indexed their state minimum wages so that they increase each year to keep pace with the rising cost of living. Nine of these states have also guaranteed tipped workers 60 to 70 percent of the state minimum wage.
- ✓ ***Increase the State's Earned Income Tax Credit***—The Earned Income Tax Credit (EITC) is a federal tax credit for low- to moderate- income working individuals and families, to which the state EITC is indexed. The credit reduces the tax burden placed on workers by offsetting payroll and income taxes. The credit is also refundable —meaning that if the credit exceeds the amount of taxes owed, the difference is given back to the worker. Given the current economic recession, the EITC may be more important to working families than ever before, particularly in a state like Indiana where low-income workers are taxed in a regressive system.
- ✓ ***Increase Indiana's Tax Threshold and Personal Exemptions***—Currently Indiana is one of 15 states that taxes below the Federal Poverty Guidelines (\$22,350 for a family of four in 2011). By enacting a \$25,000 no-tax floor, for example, families making below that amount owe no taxes, but once income surpasses that level the tax is owed on all taxable income from one dollar up. When the Indiana income tax was enacted in 1963, the basic personal exemption was set at \$1,000 per family member — where it remains today. Since then, inflation has eroded the value of \$1,000 substantially.
- ✓ ***Expand the Sales Tax Base to Services***—A less regressive way to increase state sales tax revenues in a more equitable manner is to expand the sales tax base to include services, since low-income taxpayers pay more in sales taxes than those of higher incomes, who tend to purchase more services. For example, if an individual purchases cleaning supplies to clean their home, they pay sales tax. However, if the same individual hires a cleaning service, they do not pay any sales tax.

*For a full set of the Institute's policy recommendations and further details on these policy recommendations, see **Appendix A**.*

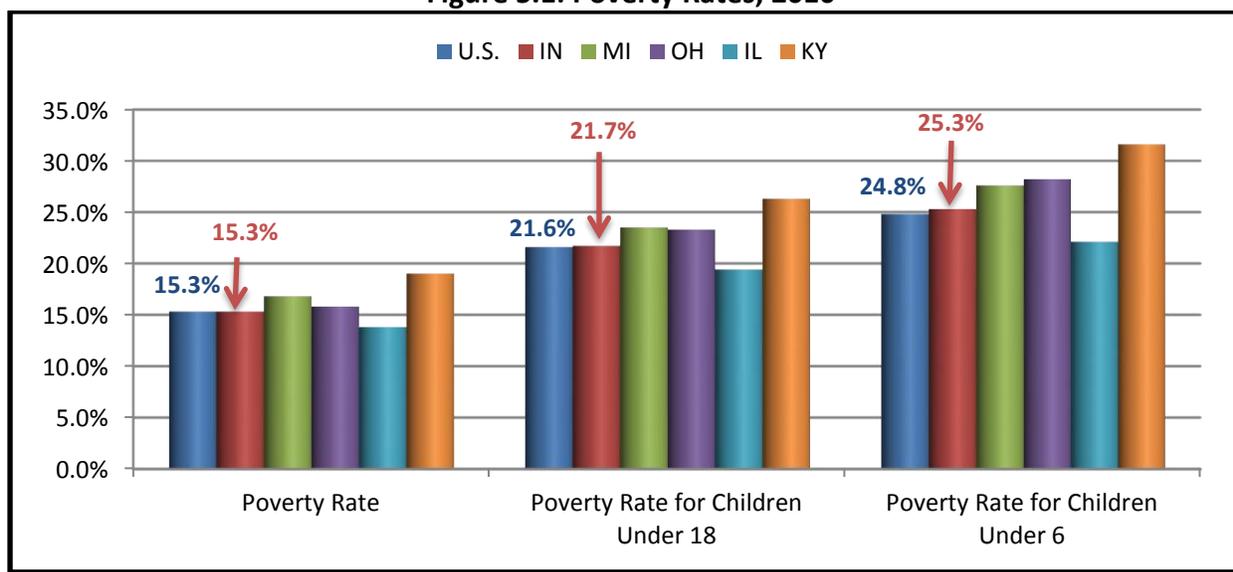
Chapter 5: Poverty

It is no surprise that the Great Recession catapulted a growing number of families across the nation into poverty.^v But while the dramatic increases may have been fueled by the economic crisis, the percentage of Hoosiers living in poverty has been increasing since long before the Great Recession, nearly eclipsing the entire U.S.

The Federal Poverty Guidelines (FPG) measure the number of people in poverty. If families are earning less than the poverty threshold, they are considered “poor” and those earning incomes above the threshold are considered “not poor.” In reality, financial well-being is not so clear-cut. There are many families earning incomes above the FPG, but are still unable to meet their family’s basic needs.

As established in **Figure 5.1**, poverty rates in Indiana are on par with the national average. Indiana’s overall poverty rate stands at 15.3 percent—962,775 Hoosiers. Poverty amongst children under 18 is 21.7 percent (342,172 Hoosiers) while one quarter of children in Indiana under the age of six are in poverty (130,691 Hoosiers). Also, above the national average of 48 percent, 50 percent (262,256) of Hoosier children under the age of 6 are defined as low-income. A family requires around 200 percent of the FPG to be economically self-sufficient, which would be \$44,100 for a family of four in 2010. By this measure over one-third of Indiana’s population is living in or near poverty (2.25 million Hoosiers).

Figure 5.1: Poverty Rates, 2010



Source: CLASP calculations of American Community Survey

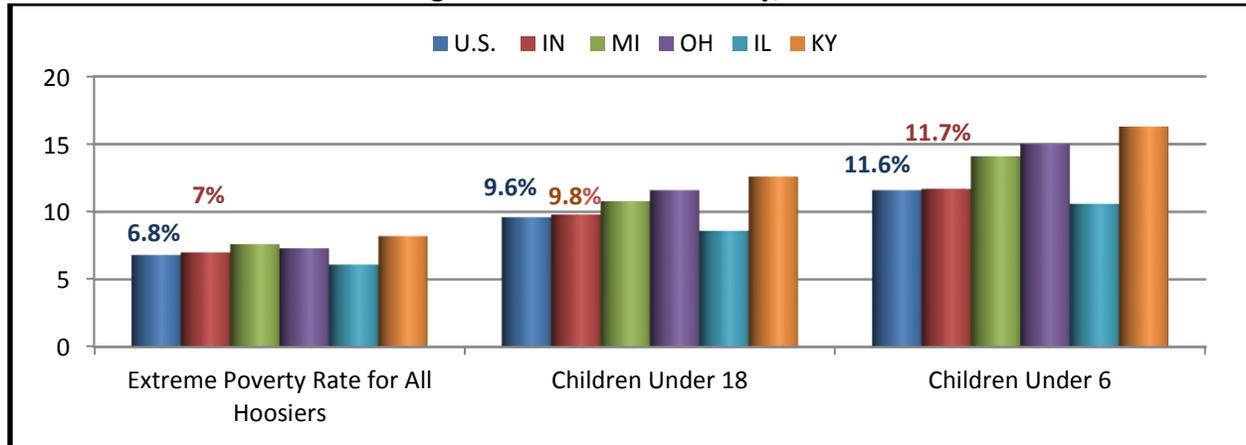
Low Income: Individuals living at 200% of the FPG.

Extreme Poverty: Individuals living at 50% of FPG.

Near Poor: Individual living at 100% to 199% of FPG.

As illustrated in **Figure 5.2**, Indiana and nearly all of its neighboring states are experiencing extreme poverty rates above the national average. In Indiana, extreme poverty affects 7 percent, or nearly 440,000 Hoosiers. Nearly 155,000 children under 18 (9.8 percent) are affected by extreme poverty. Of those 155,000 children, just over 64,000 (11.7 percent) are under the age of six.

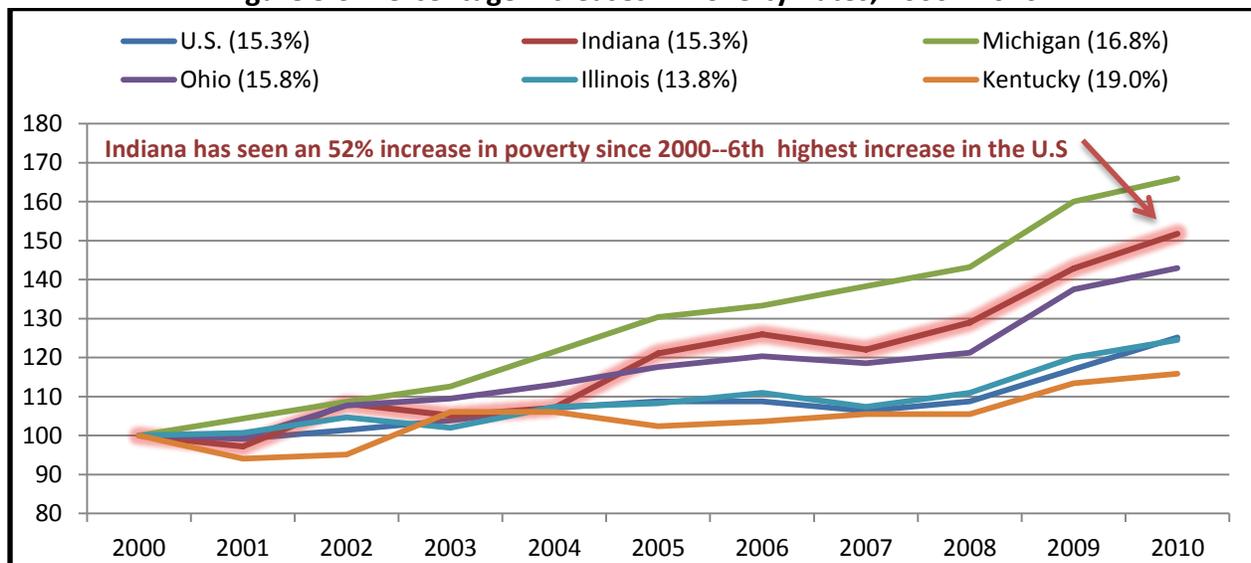
Figure 5.2: Extreme Poverty, 2010



Source: CLASP calculations of American Community Survey data

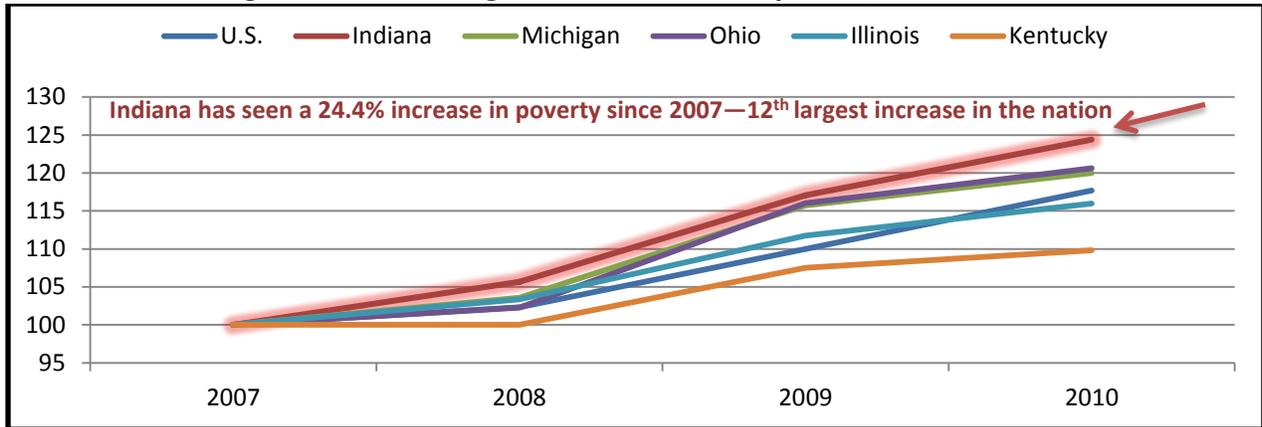
While Indiana’s poverty rates are on par with those of the U.S., there is concern regarding the rapid increase of poverty in the last decade—see **Figure 5.3** and **Figure 5.4**. Since 2000, the poverty rate has increased by 51.8 percent—the 6th highest increase in the nation. Since the recession began in 2007, Indiana has seen a 24.4 percent increase in poverty rates—12th largest increase in the nation. Current poverty rates are depicted in the chart legend.

Figure 5.3: Percentage Increases in Poverty Rates, 2000 - 2010



Source: Economic Policy Institute Analysis of Current Population Survey Data (Indexed, January 2007=100)

Figure 5.4: Percentage Increases in Poverty Rates, 2007 - 2010

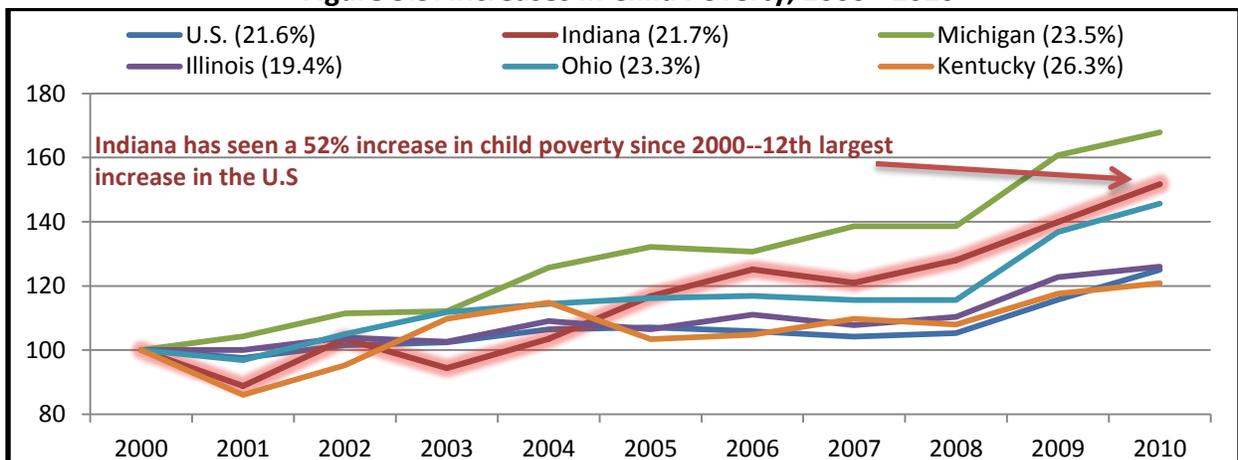


Source: Economic Policy Institute Analysis of Current Population Survey Data (Indexed, January 2007=100)

Equally concerning is the rapid growth in child poverty, shown in **Figure 5.5**. Hoosier children face an even great barrier to economic self-sufficiency as they enter adulthood—their poverty rate now stands at 21.7 percent, slightly above the national child poverty rate of 21.6 percent. This represents a 52 percent increase since 2000 (12th largest increase in U.S.) and a 25.4 percent increase since 2007 (15th largest increase in the nation). For children under 6 years of age, the poverty rate in Indiana is 25.3 percent, just above the national average of 24.8 percent. Current poverty levels are depicted in the chart legend.

Because these impoverished children face additional barriers entering adulthood, they are less likely to escape poverty. According to the National Center for Children in Poverty (NCCP) the poverty cycle among children ends up costing billions in lost productivity, increased crime and rising health costs. Indiana will need to double down its efforts to reduce childhood poverty.²⁹ In fact, a recent study found that the number of families and children in the U.S. who live below a standard that the World Bank uses to measure serious poverty in third-world countries—living on less than \$2 a person, per day—has doubled since 1995.³⁰

Figure 5.5: Increases in Child Poverty, 2000 - 2010



Source: Economic Policy Institute Analysis of Current Population Survey Data (Indexed, January 2000=100)

While the safety net is far from perfect, data shows that it has been responsive during the recent recession. The FPG cannot be used to measure the safety nets impact as it ignores assistance received by low-income families such as SNAP, EITC, rental subsidies, taxes withheld from paychecks. Additionally, it does not take into account the sharp decline in cash assistance and increases in SNAP and EITC. However, if you look at the alternative poverty measure calculated by the U.S. Census Bureau, which accounts for safety net programs, the poverty rate in 2010 was 15.5 percent. Yet, under this same measure the poverty rate without safety net programs (meaning household income before government assistance) the 29 percent. This means the safety net cut poverty in half in 2010.³¹

More Accurate Measures of Poverty

As even the very basic necessities, such as housing, gas and food^w, are becoming increasingly more expensive at the same time that wages are decreasing, and consumer prices are rising, policymakers should consider a more accurate measure of poverty—such as the Self-Sufficiency Standard (Standard) and asset poverty when considering policy designed to encourage economic self-sufficiency.

- Asset poverty affects 26.2 percent of Hoosiers. This measure takes into accounts a family's financial vulnerability to economic shocks, for example, if one's income was suddenly cut off due to unemployment, a medical emergency or divorce. Creating a financial environment that fosters the ability to earn, save, and invest—especially for low-income families—is imperative for reducing the numbers of households who are asset poor. Adequate tools, incentives and public policies can help foster, preserve and protect this environment for families. In addition, when families can rely on their own wealth and savings to weather economic downturns, they are less likely to utilize public assistance, which can save taxpayer dollars.^{x,y}

- The Standard is an updated, more accurate reflection of the real income needed to pay for a working family's expenses in today's economy. It is an alternative to the FPG, which was developed in the 1960s and is based on a multiple of the price of food. The Standard instead measures how much income a family of a certain composition in a given place needs to adequately meet their basic needs—without relying on public or private assistance. It takes into account local variances in expenses as well as family configuration (e.g., children less than 5 years old who are going to require child care if the parent is working and other factors.^z

^wIndiana ranked 16th in the nation for food security:

<http://www.thestarpress.com/article/20120301/NEWS01/203010330>

^xTo see more, see the Institute's policy brief on asset poverty:

<http://www.incap.org/documents/iwfw/2011/FINAL%20Asset%20Poverty%202-7-11.pdf>

^yThe Corporation for Enterprise Developments 2012 Asset and Opportunity Scorecard ranking of Indiana's performance and policy measures across five Issue Areas: Financial Assets & Income (C) , Businesses & Jobs (F), Housing & Homeownership (C), Health Care (B) and Education (D). <http://scorecard.assetsandopportunity.org/2012/state/in>

^zTo see more, see the Institute's policy brief on the Self-Sufficiency Standard:

<http://www.incap.org/documents/iwfw/2011/FINAL%20SSS%20Ways%20It%20Can%20Be%20Used%20Brief%20January%202011.pdf>

Public Policy and Poverty

Poverty rises as unemployment increases during a recession, and work support programs are designed to help workers through these difficult economic times. Typically these programs will have higher participation rates during a recession and declining participation when the economy has recovered. This has not been the case in Indiana and many other states.

Indiana's Unemployment Insurance (UI) reciprocity rate—the share of the unemployed collecting UI benefits—was 25 percent in 2010, while the national average was 31 percent. Only 8 states in the nation had lower UI reciprocity rates than Indiana.^{aa} This was caused by a few factors. Equally painful to unemployed Hoosiers was the average duration of UI benefits. In 2010 and 2011, the average duration was 17.4 and 15.5 weeks, respectively. Unemployed Hoosiers saw some of the shortest benefit periods in the nation.^{bb,32} Finally, Indiana's unemployment exhaustion rate—or, the proportion of claimants who collect all of their unemployment insurance as of November 2011 was 54 percent—suggesting UI benefits ran out before beneficiaries were able to find work.

Another work-support program that saw non-equivalent increases in participation was Supplemental Nutrition Assistance Program (SNAP). On average, participation rates in U.S. states between 2007 and 2011 increased by 70 percent. However, in Indiana, there has been a 50 percent participation increase in the same time period—despite nearly leading the nation in increased poverty. Because Indiana's increased SNAP participation is noticeably lower than the increases in poverty, the gap between those in poverty and those receiving SNAP is greater than the national average and greater than its surrounding states.

Indiana's (Temporary Assistance to Needy Families) TANF program has not been as responsive either. Indiana has one of the lowest eligibility levels in the nation. Thus, Indiana saw a 10 percent decrease in caseloads from December 2007 to December 2009, despite a 103 percent increase in unemployment. To qualify for TANF a person's income has to be at 39 percent of FPG (\$8,547 for a family of four in 2010) and less than \$1,000 in assets, with some exceptions. The program is designed to help people develop a self-sufficiency plan. However, Hoosiers are dropped from the program at 100 percent of FPG, well below self-sufficiency. Additionally, Indiana also has a comparatively short 24-month lifetime limit for benefits.

The state government of Indiana, in collaboration with private and non-profit sectors, has an important role to play in improving the conditions and opportunities of low-wage workers and their families. The Institute believes that work is key to achieving economic self-sufficiency. In order for Indiana to recover from the national recession's lasting effects and prepare for a more prosperous future, policymakers must choose to invest in Indiana's workers and their families by strengthening state policies that lead to opportunities for Hoosiers to achieve and maintain economic self-sufficiency.

^{aa}Note: This number reflects the reception of regular state UI benefits.

^{bb}Average Duration of Benefits: The number of weeks compensated for the year divided by the number of first payments.

Chapter 5 Policy Recommendations

The following are recommendations to help families out of poverty and assist them in achieving and maintaining economic self-sufficiency:

- ✓ ***Increase Investments in Individual Development Accounts***—The Indiana Individual Development Account (IDA) Program is an asset development program for low-income individuals. IDAs are individual savings accounts, matched with public and sometimes private dollars that assist low- to moderate-income individuals in saving money and building financial assets for the specified purposes of higher education; small business capitalization; home purchase; and asset preservation through rehabilitation, such as homeowner occupied rehabilitation. The match incentive is similar to that of an employer match for 401(k) contributions. Indiana’s IDA program offers a minimum 3:1 match, which means, for every one dollar saved by an IDA participant, they will receive at least a three dollar match on their deposit up to \$800 a year for up to four years. Since the program’s inception in 1997, Indiana residents have saved over \$2.7 million and 4,181 accounts have been opened.
- ✓ ***Expand IDA Uses, as Defined in Indiana Code, to Include Additional Needs Such as Automobile Repairs***—While some IDA programs do not allow vehicle purchases due to the fact that an automobile is a depreciating asset, transportation constraints, such as costs of automobile repair or lack of public transportation should be considered.
- ✓ ***Increase Asset Limits for the Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance to Needy Families (TANF) Program***
Indiana has extremely low asset limits for both SNAP (formerly the Food Stamp Program) and TANF. For example, if the family has savings in excess of \$1,000, they are ineligible for TANF cash assistance in Indiana. Once eligible, a family may accumulate up to \$1,500 in assets. These asset limits or—resource standards discourage families from establishing and accumulating sufficient assets which could not only be used to transition them off of public assistance but also lift the family out of asset poverty. Indiana should eliminate or increase asset limits to where they would not affect most recipients.

*For a full set of the Institute’s policy recommendations and further details on these policy recommendations, see **Appendix A**.*

Appendix A: Policy Recommendations

The list below is a recap of the recommendations following each chapter of the *Status of Working Families in Indiana, 2011*. Additional information, such as reports, publications, and policy briefs from the Institute or its partner organizations, is also included in the text or footnotes. In order for working families in Indiana to recover, legislative and administrative priority should be given to the following:

- ✓ *Preserve jobs and provide employment opportunities to all Hoosiers;*
- ✓ *Increase the number of low-skilled adults who enroll in postsecondary education and training programs to address Indiana's middle-skills gap and;*
- ✓ *Promote financial stability for working families by improving wages, benefits, and work support programs.*

Chapter 2 Policy Recommendations—Job Creation and Job Preservation

Based on the data in Chapter 2, the following policies are recommended to assist those facing barriers to employment, and improve the economic health of Hoosier families:

- ✓ ***Establish a Work Sharing Program***—Work sharing (also known as Short-Time Compensation) is an Unemployment Insurance (UI) benefit that explicitly targets job preservation and allows businesses to retain their skilled workforce during times of temporary decreased demand. Work sharing is now part of the Middle Class Tax Relief and Job Creation Act of 2012. Federal money will be provided for implementation.^{cc}
- ✓ ***Outreach to Employers on the Work Opportunity Tax Credit to Increase Employment Opportunities for Populations Who Face Significant Employment Barriers***—The Work Opportunity Tax Credit (WOTC) is a Federal tax credit that Congress provides to private-sector businesses for hiring individuals from nine target groups who have consistently faced significant barriers to employment. The WOTC can now be as much as: \$2,400 generally for each new adult hire; \$1,200 for each summer youth hire; \$4,800 for each new disabled veteran hire; and \$9,000 for each new long-term TANF recipient hired over a two year period.³³ Many other states are doing outreach campaigns and publishing marketing materials for employers to increase employment opportunities for these populations who often face barriers to employment and to aid them in the transition from public assistance to economic self-sufficiency. Some of these states and departments include: New Jersey State Parole Board; Texas Workforce Commission; Idaho Workforce Development Commission; and New York State Department of Labor.^{dd}

^{cc}To see the Institute's report on work sharing, please visit:

<http://www.incap.org/documents/iiwf/2011/FINAL%20Work%20Sharing%20Report%20-%20Dec.%2012%202011.pdf>

^{dd}To see Texas's materials please visit: http://www.twc.state.tx.us/svcs/wotc/emp_info_packet.pdf

- ✓ ***Offer Tax Credits for Businesses Hiring Unemployed Workers***— Employers and staffing firms continue to deny job opportunities to those workers hardest hit by the economic downturn, despite increased scrutiny and strong public opposition to the practice. Minnesota Governor Mark Dayton proposed a package of investments and tax policy changes that he estimates will create thousands of jobs for Minnesotans. The \$35 million plan will incentivize businesses with tax benefits when they hire unemployed workers. Dayton wants to reward businesses this year with a \$3,000 tax credit every time they hire an unemployed person, a veteran or a recent graduate. The proposed credit would drop to \$1,500 for the first six months of 2013, and then end. It is estimated that the credit would create more than 20,000 private sector jobs. The cost would be covered in large part from other tax policy changes, including closing what he called a corporate loophole which allows companies to exempt some of the money they earn overseas from state taxes.³⁴

- ✓ ***Extend Unemployment Benefits to Part-Time Workers***— Indiana had 770,690 part-time workers in 2009 (26.8 percent of the labor force), the vast majority of who were female. For many employers and workers, part-time work is a necessity and in many occupations part-time work is prevalent. In addition, part-time work is an important strategy for female workers in their “prime” working years (25-44 years old) to balance family responsibilities with their careers. Indeed, 20 percent of employed women aged 25-54 work part-time as compared to about 7 percent men in the same age group. Additionally, the wages of part-time workers are subject to UI payroll and other employment taxes on the same basis as the wages of full-time employees.^{ee}

- ✓ ***Invest in Indiana’s Infrastructure for the State to Remain Economically Competitive***—Research continues to point to public investment as a way to increase private-sector productivity and GDP growth.^a According to The Report Card for America’s Infrastructure, in Indiana, 25 percent of bridges are structurally deficient, \$4.03 million is needed for drinking water infrastructure, and the state has \$5.86 billion in wastewater infrastructure needs.^a Indiana needs to make such investments, especially considering the current low cost of financing, if it wants to attract quality jobs and remain economically competitive in a global economy. Many states have realized they need to make such investments and have been pumping millions of dollars into infrastructure improvement, including some of Indiana’s neighboring states. Indiana needs to make such investments if it wants to attract quality jobs and remain economically competitive in a global economy. Wisconsin has the Freight Rail Infrastructure Improvement Program (FRIIP) and is one of two freight rail assistance programs. These programs provide 100 percent loans for rails projects that: connect an industry to the national railroad system; make improvements to enhance transportation efficiency, safety, and intermodal freight movement; accomplish line rehabilitation; and develop the economy. Since 1992, \$101 million in FRIIP loans have been awarded. Today’s available funding is from the repayment of prior loans.³⁵

^{ee} To see the Institute’s policy brief on UI benefits, including information about benefits for part-time workers, please visit: <http://www.incap.org/documents/iiwf/2011/FINAL%20UI%20Brief%202-7-11.pdf>

Chapter 3 Policy Recommendations—Address the Middle Skill Jobs Gap

Based on data from Chapter 3, the following are recommendations for policymakers to ensure access to basic skills and post-secondary education opportunities that will increase employability and earnings for all Hoosiers:

- ✓ ***Expand the Number of Certificate Programs Eligible to Receive State Financial Aid Dollars***—For some adults, enrolling in a certificate program is a perfect way to introduce them to the college process. Certificate programs are relatively inexpensive and short-term. Most certificate program coursework can also be transferred as credits toward an associate’s degree. Students, who have a successful experience with a certificate program, and see a wage increase as a result of their certificate, are more likely to obtain more certificates or go on to earn an associate’s degree. Therefore, funding certificate programs has a positive effect on access, affordability, and persistence for adult students.

For thirteen of the Department of Workforce Developments *Hoosier Hot 50 Jobs*, there are 28 corresponding certificates. However, only half of these certificate programs are eligible to provide financial aid to students. Allowing all certificate programs, including non-credit and third-party certification programs, to be eligible for financial aid is a step toward increasing postsecondary enrollment and the number of adult workers with postsecondary credentials.

- ✓ ***Implement Lifelong Learning Accounts (LiLAs) for Targeted Industrial Sectors***—Lifelong Learning Accounts (LiLAs) assist adult workers to achieve their career goals. LiLAs are employer-matched, portable, and employee-owned accounts used to finance education. LiLAs allow workers and employers to effectively leverage resources to increase productivity, improve recruitment and retention, and meet the changing needs of our economy.

While Indiana ranks first in manufacturing productivity, 2010 saw the largest gap between open positions and new hires. LiLA programs would help to ready workers for the technological changes in today’s workforce, specifically, the manufacturing sector, health care sector, trucking industry, and emerging technology related industries. Indiana has had state legislation to start LiLA pilots in the past.^{36,ff}

- ✓ ***Increase Financial Aid for Part-Time College Students***—Of the adult students enrolled in Indiana’s postsecondary institutions, 82 percent were part-time. Yet, only 2.1 percent of state grant expenditures were applied to adult students. The increased participation among part-time students is representative of the economy, and should be accompanied by additional financial support. Part-time students should have the same access to adequate financial aid that our full time students enjoy.

^{ff}To see the Institute’s Policy Brief on LiLAs, please visit: <http://www.incap.org/documents/iwof/2011/FINAL%20LiLAs.pdf>

- ✓ ***Change Indiana's March 10th Application Filing Deadline for State Financial Aid***—Missing the March 10th state financial aid deadline application disqualifies students from receiving state financial aid until the next academic year. Setting a new deadline later in the year will provide more time for students to determine if they will enroll in college and to file tax returns before filing a FAFSA. This could improve numbers of adult students who apply for and receive financial aid.

Chapter 4 Policy Recommendations—Wages and Taxes

Based on the data, the following are proposals to address the regressivity of Indiana's tax structure to decrease the burden for low-income workers and increase wages for all Hoosiers:

- ✓ ***Raising the State's Minimum Wage and Index to Inflation***—Minimum wage would be \$10.38 if it had kept pace with inflation over the past 40 years. Raising the minimum wage nationally to \$10.38 will help restore consumer spending which drives our economy and that local business need to grow and would create 160,000 jobs alone—as minimum wage workers spend most or all of their income.³ Additionally minimum wage workers are disproportionately women and minorities whose wages are even lower than males both in Indiana and nationally.

Currently 17 states have minimum wages (ranging from \$7.40 to \$9.04 an hour) that are higher than the federal minimum wage rate of \$7.25 an hour. 10 of these states have indexed their state minimum wages to inflation so that they increase each year and keep pace with the rising cost of living. Nine of these states have also guaranteed tipped workers 60 to 70 percent of the state minimum wage.³⁷

- ✓ ***Increase Indiana's Tax Threshold and Personal Exemptions***—Currently Indiana is one of 15 states that taxes below the Federal Poverty Guidelines (\$22,350 for a family of four in 2011). By enacting a \$25,000 no-tax floor, for example, families making below that amount owe no taxes, but once income surpasses that level the tax is owed on all taxable income from one dollar up. When the Indiana income tax was enacted in 1963, the basic personal exemption was set at \$1,000 per family member — where it remains today. Since then, inflation has eroded the value of \$1,000 substantially.
- ✓ ***Expand the Sales Tax Base to Services***— A less regressive way to increase state sales tax revenues in a more equitable manner is to expand the sales tax base to include services, since low-income taxpayers pay more in sales taxes than those of higher incomes, who tend to purchase more services. For example, if an individual purchases cleaning supplies to clean their home, they pay sales tax. However, if the same individual hires a cleaning service, they do not pay any sales tax.

Indiana currently taxes 24 services, but this is minimal considering some states tax as many as 168 services. On the other hand, there are some services that should not be taxed including health care, education, housing, child and elder care, public transportation, legal services, funeral services, public transit, banking services, and insurance services. These services are often large items in a family's budget and consumption is often involuntary. All other services should be considered for taxation. Increasing the sales tax will generate a considerable amount of state revenues. Even if Indiana exempted only medical and legal services, Indiana could have raised almost \$4.5 billion in state fiscal year 2009 from an expanded sales tax, according to the Indiana Fiscal Policy Institute.³⁸

Chapter 5 Policy Recommendations—Work Support Programs

The following are recommendations to help families out of poverty and assist them in achieving and maintaining economic self-sufficiency:

- ✓ ***Increase Investments in Individual Development Accounts***—The Indiana Individual Development Account (IDA) Program is an asset development program for low-income individuals. IDAs are individual savings accounts, matched with public and sometimes private dollars that assist low- to moderate-income individuals in saving money and building financial assets for the specified purposes of higher education; small business capitalization; home purchase; and asset preservation through rehabilitation, such as homeowner occupied home rehabilitation. The match incentive is similar to that of an employer match for 401(k) contributions. Indiana's IDA program offers a minimum 3:1 match, which means, for every one dollar saved by an IDA participant, they will receive at least a three dollar match on their deposit up to \$800 a year for up to four years. Since the program's inception in 1997, Indiana residents have saved over \$2.7 million and 4,181 accounts have been opened.

- ✓ ***Expand IDA Uses, as Defined in Indiana Code, to Include Additional Needs Such as Automobile Repairs, Child Care, and Mortgage Payments***—Over the years, Pennsylvania has expanded the uses of IDA program funds and has become one of the most flexible IDA programs in the country. IDA funds can be used for to purchase a home, start or expand a small business, or to pay for postsecondary education, the same as Indiana, but can also be used for automobile purchases, insurance costs, child care, college savings plans, and/or retirement.

While some IDA programs do not allow vehicle purchases due to the fact that an automobile is a depreciating asset, transportation constraints, such as costs of automobile repair or lack of public transportation should be considered. Other states have also allowed IDA funds to be used to make mortgage payments to avoid mortgage default and foreclosure. However, IDA program participants have one of the lowest rates of mortgage default and foreclosure. This may be a way Indiana can expand use of IDA program funds to preserve a family's asset in emergency cases, such as loss of employment.

✓ ***Increase the State's Earned Income Tax Credit***

The Earned Income Tax Credit (EITC) is a federal tax credit for low-to-moderate-income working individuals and families. The credit reduces the tax burden placed on workers by offsetting payroll and income taxes. The credit is also refundable –meaning that if the credit exceeds the amount of taxes owed, the difference is given back to the worker. Thus, earned income is put back into the pockets of working individuals and families.

“Eighty percent of the EITC goes to households making between \$10,000 and \$40,000—about 40 percent of all tax units. Even in those income ranges, only about one in four families get the credit. The average benefit for an EITC household making \$20,000-\$30,000 is more than \$3,000. This is a 12 percent boost in your after-tax income if you are making the minimum wage.”³⁹

✓ ***Increase Asset Limits for the Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance to Needy Families (TANF) Program***

Indiana has extremely low asset limits for both SNAP (formerly the Food Stamp Program) and TANF. For example, if the applicant has savings in excess of \$1,000, they are ineligible for TANF cash assistance in Indiana. Once eligible, a family may accumulate up to \$1,500 in assets. These asset limits and resource standards discourage families from establishing and accumulating sufficient assets which could not only be used to transition them off of public assistance but also lift the family out of asset poverty. Indiana should eliminate or increase asset limits to where they would not affect most recipients.

Citations

- ¹ Lobonte, Marc. Congressional Research Service. *The 2007-2009 Recession: Similarities to and Differences from the Past*. October, 2010. Retrieved March 6, 2012: <http://www.fas.org/spp/crs/misc/R40198.pdf>
- ² Plunkert, Lois M. Bureau of Labor Statistics, Monthly Labor Review. *The 1990's: A Decade of Job Growth and Industry Shifts*. September, 1990. Retrieved March 5, 2012: <http://www.bls.gov/mlr/1990/09/art1full.pdf>
- ³ Economic Policy Institute. Briefing Paper. *NAFTA at Seven: It's Impact on Workers in all Three Nations*. 2001. Retrieved March 5, 2012: <http://www.epi.org/page/-/old/briefingpapers/nafta01/nafta-at-7.pdf>
- ⁴ Scott, Robert E. Economic Policy Institute. *Growing U.S. Trade Deficit with China Cost 2.8 Million Jobs Between 2001 and 2010*. September 2011. Retrieved March 5, 2012: <http://www.epi.org/publication/growing-trade-deficit-china-cost-2-8-million/>
- ⁵ Based on analysis of Census data from the Economic Policy Institute.
- ⁶ Executive Office of the President Council of Economic Advisers. *The Economic Impact of the American Recovery and Reinvestment Act of 2009*. Eighth Quarterly Report. December 2011. Retrieved March 5, 2012: <http://www.recovery.gov/About/Documents/100113-economic-impact-arra-second-quarterly-report.pdf>
- ⁷ Blinder, Alan. Zandi, Mark. *Moody's Economy. How the Great Recession Was Brought to An End*. July 2010. Retrieved March 13, 2012: <http://www.economy.com/mark-zandi/documents/End-of-Great-Recession.pdf>
- ⁸ Compton, Matt. The White House. The White House Blog. *President Obama Signs the Payroll Tax Cut*. February 2012. Retrieved March 5, 2012: <http://www.whitehouse.gov/blog/2012/02/22/president-obama-signs-payroll-tax-cut>
- ⁹ Bivens, Josh. Economic Policy Institute. Working Economics. *Maybe Reagan Was Onto Something...* January 2012. Retrieved March 5, 2012: <http://www.epi.org/blog/ronald-reagan-recession-recovery/>
- ¹⁰ United States Department of Labor. Bureau of Labor Statistics. News Release. *Regional and State Unemployment—2011 Annual Averages*. February 2012. Retrieved March 6, 2012: <http://www.bls.gov/news.release/pdf/srgune.pdf>
- ¹¹ Austin, Algernon. Economic Policy Institute. *For African Americans, 50 Years of High Unemployment*. February 2012. Retrieved February 22, 2012: <http://www.epi.org/publication/african-americans-50-years-high-unemployment/>
- ¹² Pew Research Center Publications. *“Young, Underemployed and Optimistic.”* February 2012. Retrieved February 10, 2012: <http://pewresearch.org/pubs/2191/young-adults-workers-labor-market-pay-careers-advancement-recession>
- ¹³ Blakely, Stephen. Employee Benefit Research Institute. Fast Facts from EBRI: *Older Workers: Who's Working?* August 2011. Retrieved February 22, 2012: <http://www.ebri.org/pdf/FFE.208.2Aug11.LbrPart-1.pdf>
- ¹⁴ Helper, Susan. Krueger, Timothy. Wial, Howard. Metropolitan Policy Program at Brookings. *Why Does Manufacturing Matter? Which Manufacturing Matters? A Policy Framework*. February 2012. Retrieved February 28, 2012:
- ¹⁵ Bivens, Josh. EPI Briefing Paper. *Public Investment: The Next New Thing for Powering Economic Growth*. April 2012. Retrieved April 2012: <http://www.epi.org/publication/bp338-public-investments/>
- ¹⁶ The Report Card for America's Infrastructure: *Indiana*. Retrieved March 6, 2012: <http://www.infrastructurereportcard.org/state-page/indiana>
- ¹⁷ Indiana Institute for Working Families. Policy Brief. *Middle Skill Jobs*. May 2011. Retrieved March 23, 2012: http://www.incap.org/documents/iwvf/2011/Final%20Middle%20Skill%20Jobs_8-30.pdf
- ¹⁸ National Women's Law Center. Indiana State Equal Pay Fact Sheet. *The Importance of Fair Pay for Indiana Women*. April 2012. Retrieved April 2012: http://www.nwlc.org/sites/default/files/pdfs/2012equalpay-factsheets/indiana_equalpaystatefactsheet.pdf
- ¹⁹ United States Department of Commerce, Bureau of Economic Analysis. *“Economic Recovery Widespread Across the States in 2010.”* June, 2007. Retrieved January 31, 2012: http://www.bea.gov/newsreleases/regional/gdp_state/gsp_newsrelease.htm
- ²⁰ Michel, Lawrence and Shierholz, Heidi. EPI. Issue Brief. *The Sad But True Story of Wages in America*. March 2011. Retrieved March 23, 2012: http://epi.3cdn.net/3b7a1c34747d141327_4dm6bx8ni.pdf

-
- ²¹ Lafer, Gordon. EPI. *Working Hard to Make Indiana Look Bad*. January 2012. Retrieved: March 23, 2012: <http://www.epi.org/publication/working-hard-indiana-bad-tortured-uphill/>
- ²² Remapping Debate. "Individual minimum wage versus family poverty threshold." 11 April 2012. Retrieved on 19 April 2012 at: <http://www.remappingdebate.org/map-data-tool/individual-minimum-wage-versus-family-poverty-threshold>.
- ²³ Economic Policy Institute, State of Working America 2011, Table: Low Paying Jobs Not Spread Evenly Across Workforce. Retrieved April 24, 2012: www.stateofworkingamerica.org/charts/view/185
- ²⁴ Ibid.
- ²⁵ Johnson, Nicholas, Chris Maj, and Phil Off. "The Impact of State Income Taxes on Low-Income Families in 2011." Center on Budget and Policy Priorities: Washington D.C. 17 April 2012. Retrieved on 19 April 2012 at: <http://www.cbpp.org/cms/index.cfm?fa=view&id=3740>.
- ²⁶ Ibid.
- ²⁷ Christman, Anastasia. Riordan, Christine. National Employment Law Project (NELP). *Filling the Good Jobs Deficit: An Economic Recovery Agenda for Our States and Cities*. October 2011. Retrieved March 6, 2012: <http://www.remappingdebate.org/article/tale-two-systems?page=0,0>
<http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cts=1331089009881&ved=0CCUQFjAA&url=http%3A%2F%2Fwww.nelp.org%2Feconomicrecoveryagenda&ei=bs5WT9GKMYjyggf8mtnQDA&usq=AFQjCNGpTDEthZMNgcUMKhZCRXuBYNgBAA&sig2=aFesv69SzCCd3UQeYuNuOO>
- ²⁸ United States Department of Labor, Wage and Hour Division (WHD). "Minimum Wage Laws in the States - January 1, 2012." Retrieved on 20 April 2012 at: <http://www.dol.gov/whd/minwage/america.htm>.
- ²⁹ NCCP. Child Poverty and Intergeneration Mobility. December 2009. Retrieved on September 22, 2011: http://www.nccp.org/publications/pub_911.html.
- ³⁰ H. Luke Shaefer and Kathryn Edin. "Extreme Poverty in the United State, 1996 to 2011," National Poverty Center, 2012. Retrieved at: http://npc.umich.edu/publications/policy_briefs/brief28/.
- ³¹ Center on Budget and Policy Priorities. "Testimony of Robert Greenstein before House Budget Committ Hearing on Strengthening the Safety Net." 17 April 2012. Retrieved at: <http://www.cbpp.org/cms/index.cfm?fa=view&id=3745>.
- ³² United States Department of Labor. Employment and Training Administration. Unemployment Insurance Data Summary. Retrieved March 12, 2012: <http://www.ows.doleta.gov/unemploy/content/data.asp>
- ³³ United States Department of Labor. "Work Opportunity Tax Credit." Retrieved on 19 April 2012 at: <http://www.doleta.gov/business/incentives/opptax/>.
- ³⁴ MPR News. "Dayton: tax credit for hiring unemployed workers, tax for online purchases." 11 January 2012. Retrieved on 18 April 2012 at: <http://minnesota.publicradio.org/display/web/2012/01/11/dayton-tax-credit/>.
- ³⁵ Wisconsin Department of Transportation. "Freight Railroad Infrastructure Improvement Program." Retrieved on 19 April 2012 at: <http://www.dot.state.wi.us/localgov/aid/friip.htm>.
- ³⁶ Dwyer, S. & Snyder, T. (2011). Indy Star. *Good jobs start with training*. <http://www.conexusindiana.com/news-release/finding-good-jobs-starts-with-training>.
- ³⁷ United States Department of Labor, Wage and Hour Division (WHD). "Minimum Wage Laws in the States - January 1, 2012." Retrieved on 20 April 2012 at: <http://www.dol.gov/whd/minwage/america.htm>.
- ³⁸ Indiana Fiscal Policy Institute. "Sales Taxation of Services in Indiana, Concepts and Issues." Retrieved on 20 April 2012 at: <http://www.indianafiscal.org/docs/Sales-Taxation-Services-Indiana.pdf>.
- ³⁹ Gleckman, Howard. "Not All Tax Breaks Are Created Equal." Tax Policy Center Blog. Published 24 August 2011. Retrieved on 20 April 2012 at: http://taxvox.taxpolicycenter.org/2011/08/24/not-all-tax-breaks-are-created-equal/?utm_source=feedburner&utm_medium=email&utm_campaign=Feed%3A+taxpolicycenter%2Fblogfeed+%28TaxVox%3A+the+Tax+Policy+Center+blog%29.

For More Information, Please Contact The:



1845 18th St., Indianapolis, IN 46202

Phone: 317-638-4232

Email: dthomas@incap.org

Web Site: www.incap.org/iwvf.html