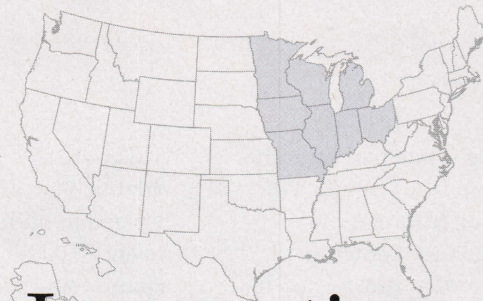


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Midwest Relies on Innovation to Restore Economic Health

AS THE GREAT RECESSION BEGINS TO RECEDE, states across the Midwest are starting to recover, albeit slowly. Although there are encouraging signs, after several years of steep declines in revenue, property taxes, employment, income, and sales taxes will all need a robust boost to bring Midwest states back to pre-recession levels. So the region will have to find new ways to capitalize on resources, while creating fresh alternatives in raising revenues and growing jobs. Happily, some states are doing just that.

The National Conference of State Legislatures' recent *Fiscal Brief: Projected State Revenue Growth in FY 2011 and Beyond* indicates that nearly every 2011 fiscal state forecast has revenues exceeding those of 2009, "although many note that revenues are still well below peak levels."

For instance, budget officials in Indiana are expecting 6.3 percent revenue growth over last year, without having to implement any new tax increases. Wisconsin saw its economy rebound to post year-over-year growth in 2010 and expects the trend to continue.

Not surprisingly, Michigan's economy has suffered one of the most difficult economic periods ever. With the automotive and manufacturing sectors being especially hard hit, Michigan still struggles, even as its economy slowly improves. A University of Michigan study — led by Roland Zullo of the U-M Institute for Research on Labor, Employment, and the Economy — found that Michigan's eventual recovery, while welcome,

won't be as robust because the auto industry is now only a third as large as it was 10 years ago.

Minnesota and Missouri's fiscal outlooks also show signs of some new life, as both states move their revenues and tax collections to the plus column. The 2012–2013 budget outlook for Minnesota is expected to improve by \$1.160 billion, and for the first time in three years, Missouri's tax collections increased.

Employment Driving Growth

State officials in the Midwest region understand that expanding the tax and revenue base will drive expanded economic growth. To do this, every state must create and maintain good jobs. It's a goal that the Midwest States are keenly focused on.

For the past decade, Illinois saw a 420,000-drop in jobs, but since January 2010, the state has added more than 90,000 new ones.

Ohio also is showing continued momentum in its economic turnaround thanks, in part, to its concentration on "knowledge jobs" in insurance, publishing, and financial services, which typically pay above average wages. The state also has adopted a new pilot program in conjunction with the Ohio State University Fisher College of Business to attract entrepreneurial talent and to support the state's future economic development.

"We want young professionals to come from all over to see what Ohio has to offer as they look to start a business," says Mark D. Kvamme, director of job creation for the state of Ohio.

"This program is more than supporting their ideas; it's making an investment in their futures and the future of the state of Ohio."

Research and Development Lead Ongoing Expansion

For jobs to be created and for the region to truly recover, the Midwest States will have to focus on business creation and expansion. Research and development will play a key role, as current businesses retool for the future and new businesses drive innovation and new technology.

Perhaps surprisingly, Michigan is leading this charge with the third-fastest R&D growth rate among competitive innovation clusters, powered by its University Research Corridor (URC). A 2010 *Empowering Michigan* report gives credit to Michigan's URC as leading innovation around the world. "The URC has been a bright spot in the state's economic picture," says URC Executive Director Jeff Mason. "We're getting stronger relative to the competition, which puts us in a good position to help propel the state's economic growth in the future."

Iowa's legislature has passed nearly \$20 million to provide assistance to businesses committed to research, development, and the use of sources of renewable energy. As of September 2010, more than \$40 million has been committed to 46 projects.

Auto Drives Ahead

R&D is playing a bigger role in the Midwest's auto industry, too. While

Michigan is well known for its automotive manufacturing sector, Indiana also has a piece of the auto manufacturing pie. The state is moving in the direction of green technology, now promoting companies such as Indianapolis-based Allison Transmission, which produces hybrid propulsion systems, and car-maker Think, which manufactures electric vehicles.

In fact, Norway-based Think delivered its first batch of U.S.-built electric cars, 15 in all, from its Elkhart manufacturing facility to the state of Indiana's Department of Administration for use by the Department of Natural Resources. Since then, the cars have been delivered to the Indianapolis Power and Light Co. and to Duke Energy in Plainfield, Indiana. Indianapolis-based Tom Wood Automotive will support the sales and service of the cars. Long-term plans include placing 100 or more of the electric cars with government and corporate fleets and individuals.

Indiana also received a \$6 million grant last year from the U.S. Department of Labor to help develop green jobs and technology throughout the state. The grant is intended to fund Indiana's Green Energy Technology Instruction and Training (I GET IT) program, which will target green industries, particularly in the automotive sector. Additionally, the program will establish an Advanced Energy Training Center to facilitate the state's transition to a green economy.

Regional Strengths Bolstered

As expected, agriculture is the machine that drives much of the Midwest region's economies. Iowa led the nation in the production of corn, soybeans, and hogs, and was second in meat production in 2009, according to the U.S. Department of Agriculture. Minnesota's dairy industry employs 40,000 and has a total economic impact of \$11.6 billion.

While most Midwest states claim some healthcare presence, Michigan,

Illinois, and Iowa have shown an especially strong commitment to health services. Healthcare is now the largest private employer in Michigan. Illinois' 200 hospitals and health systems employ a quarter of a million people and generate a total annual impact on \$75.1 billion on the state's economy, according to the Illinois Hospital Association. And Iowa's 118 community hospitals provide 70,000 jobs and \$3.8 billion in salaries and benefits, with an economic multiplier effect of \$14 billion.

Education is a strong driver for some Midwest states, particularly in Minnesota. The University of Minnesota reports that every dollar invested by the state returns \$13.20 to the economy, for an impact of \$8.6 billion annually, according to a recent impact study conducted by consulting firm Tripp Umbach. "The university is a major contributor to Minnesota's economy in terms of employment, education, innovation, and economic development," says Paul Umbach, senior principal.

Aviation is a key driver in Iowa's economy, contributing \$5.4 billion annually and supporting more than 47,000 jobs. A 2009 aviation impact study confirmed, "Hundreds of businesses are made more productive through...the use of air cargo, commercial aviation, and general aviation. Employers have seen

productivity increase almost \$13 billion as a result of their use of air transportation."

And Missouri has embraced economic diversification by targeting seven industrial clusters: advanced manufacturing, energy solutions, biosciences, health sciences and services, information technology, financial and professional services, and transportation and logistics, according to the 2010 report, *Strategic Initiative for Economic Growth*.

Clearly the Midwest still faces economic challenges. But the region has shown true courage in the face of adversity as it fights its way back to economic health. In the coming years, this effort will undoubtedly be rewarded, proving that Midwesterners do embody grit and determination. ■

— Cynthia Kincaid



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