

The Indiana Advantage

By Rep. Ed Delaney

For the Indiana Fiscal Policy Institute

We Hoosiers aren't showy and we don't always welcome criticism from outsiders. Nevertheless, we owe it to ourselves to look into the mirror that *The New York Times* held up for us in its June 23, 2011 study of the Indiana economy¹.

There are two riveting statistics in the study: Hoosier median family income continues to decline and so does the size of our workforce. That means compared to other Americans, Hoosiers earn less and fewer of us are employed. This is a recipe for slow, permanent decline. Happily we do have some advantages that can lead to progress, if we are willing to use them.

The economy is bad nationally. People in all 50 states are impacted by corporate fraud, the housing crisis and stubbornly high unemployment. Americans have to deal with the fact that there are more than two billion people from China, India and the former Soviet Union who have joined the world economy since 1989.

Indiana has the same national problems but also has some of its own. In the 1960s, Hoosiers earned the average American wage. But our relative position has declined over time. *The New York Times* reports that Hoosier median income has fallen 15 percent in the last decade. The decline in manufacturing has hurt us more than residents of other states. We never fully recovered from the 1982 recession and the current one has hit us hard.

Indiana has reacted to changes in the economy under governors of both parties. Gov. Robert Orr, with the help of Lt. Gov. John Mutz, introduced Japanese investment into our state. This produced real jobs. Gov. Evan Bayh started the 21st Century Scholars' program, bringing higher education to those who had had little hope of going to college. Gov. Frank O'Bannon radically expanded vocational education through Ivy Tech.

Each of these governors also gave more to public education and demanded more from it. These programs created real jobs and prepared our job seekers to do better in life. But we have gotten off track. Our present governor set as his key goal raising the disposable income of Hoosiers. This has simply not happened. Instead, our median income declined.

Indiana is in trouble because the Republican party (of all parties) has forgotten simple economics. Indiana's Republican voices have forgotten that each family has two balance sheets and that each balance sheet reflects both income and expenses. One balance sheet deals with our roles as citizens and taxpayers. One half of it shows the expense side, what we pay to the state (and Washington D.C.) in taxes.

All Republican rhetoric centers on this expense side. They never discuss the other column: benefits which can come from government investments or the effects of government investment on family income. Republicans are loath to discuss the value of a free public education.

Each family also has a second, bigger, balance sheet showing non-governmental activity. Our largest expenditures include housing and transportation. Has anyone calculated the improvement in a family's finances if public transit replaced the cost of an additional car with its demands for

¹ "The Indiana Exception? Yes, but..." by Michael Powell and Monica Davey. www.nytimes.com/2011/06/23/us/23indiana.html.

gas, insurance and parking? How many of our young people could be put to work creating small businesses that could build sidewalks or sewers?

Instead of these concerns, we engage in financial games. Thus, Indiana cut contributions to unemployment insurance before the economic crisis hit. Our employers now owe billions in premiums. We made a one-time killing by selling off the toll road. But we used that revenue to do more of the same—more money for a few interstate highways. Now we have decided to undercut public education. We are devoting less money to K-12 education and spreading that money among new consumers of those dollars. Public schools are now joined by private schools and “turn-around” experts who draw on diminished funding

What are the real issues in addition to taxes?

Indiana has never been a high tax state under either political party. Yet, we often act as if we can cut our taxes so deeply that all of our problems will go away. The opening of the *Times* article reveals this mindset.

The governor defends his policies by saying that when “they” think of fiscal solvency or of infrastructure, “they” think of Indiana. “They” is not the Hoosier school kid, or the small business person in Muncie. “They” is the governor’s friends: bond rating agencies, Wall Street bankers and large investors.

Of course, “they” don’t mind low wages or high unemployment: “they” might even see opportunity in these things. The real people quoted by the *Times* seem to feel that “vanishing business—not (property) tax caps—are the real problem...”

The real people note that our lower income jobs are coming to resemble “day labor”—low pay, no benefits and irregular work. No wonder labor force participation is dropping. Can’t we recruit employers willing to pay a bit more, rather than those who want to pay low wages on short-term contracts?

How can we build a real Indiana advantage?

Indiana has some great advantages in building families with solid economic futures. Our population is growing modestly. Hoosiers are loyal to their state. We have moderate expectations for housing. We know how to tough it out. We have learned how to benefit from our central geographic and economic location. Over time our state government has built great universities and supports many fine public schools. Our people make great employees and small business owners. So let’s build on this not on financial engineering.

How? First, take advantage of our low costs BUT not so as to drive wages down. Help us keep our private balance sheets in order by making safe and affordable mortgages available. Start using our young people to build small-scale infrastructure: sidewalks and sewers and bike paths. Improve, don’t denigrate, our public schools. Put resources into those schools that do need help.

Build on what Bob Orr did to attract real jobs. Encourage college and vocational training as Evan Bayh and Frank O’Bannon did. All this takes time but perhaps we will look better the next time the *Times* puts a mirror before our faces.

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