22nd annual
Indiana ECONOMIC OUTLOOK

December 7, 2017

Sponsored by
First Merchants
The 2018 Economic Forecast for the US & Indiana

Michael J. Hicks
Director of the Center for Business & Economic Research
Ball Distinguished Professor of Economics, Miller College of Business
Excess Reserves in US Banking, 1984-2017
Excess Reserves – Actual & Potential GDP Growth in Recent Quarters

[Graph showing Actual Growth, Potential Growth, and Lost Growth over recent quarters]
# GDP Growth in the USA & Midwestern States 2017-2022

<table>
<thead>
<tr>
<th>Region</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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</thead>
<tbody>
<tr>
<td>USA</td>
<td>2.5%</td>
<td>2.2%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>2.0%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Illinois</td>
<td>0.6%</td>
<td>0.8%</td>
<td>1.0%</td>
<td>0.6%</td>
<td>0.4%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Indiana</td>
<td>2.3%</td>
<td>2.1%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>1.9%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Michigan</td>
<td>2.0%</td>
<td>1.6%</td>
<td>1.1%</td>
<td>1.1%</td>
<td>1.4%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Ohio</td>
<td>1.6%</td>
<td>2.0%</td>
<td>1.0%</td>
<td>2.0%</td>
<td>1.8%</td>
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</tr>
<tr>
<td>Wisconsin</td>
<td>2.1%</td>
<td>1.9%</td>
<td>1.7%</td>
<td>1.7%</td>
<td>1.8%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>
Manufacturing Employment Return to Trend
1939-2017

[Graph showing the trend of manufacturing employment from 1939 to 2017 with high and low forecast lines. The graph highlights the start of the Great Recession in 2007-Nov-01.]
Estimated Effects of a Corporate Tax Cut on Indiana GDP 2018-2022
Muncie GDP Growth Using Real & Quantity Index Estimates 2001-2016
Actual & Estimated Population Change Index
1950-2050
Delaware County, Ind. Housing Market Dynamics 1990-2016
The Role of Government Integrity on a Local Economy

Lori A. Torres
Inspector General for the State of Indiana
THE ROLE OF GOVERNMENT INTEGRITY IN THE LOCAL ECONOMY
In the Beginning. . . Executive Order 05-03

• Governor Daniels’ vision

• Modeled after federal offices of Inspectors General, which are agency specific at the federal level

• Serve as a public watchdog on behalf of taxpayers for state government

• Root out fraud and ethical misconduct

• Clear guidelines, the highest standards of ethical conduct and they should be rigorously enforced
The mission of the Inspector General and staff is to reduce fraud, waste, abuse, mismanagement and wrongdoing in state executive branch agencies. Through education, advice, investigations, prosecutions and legislative recommendations, the Inspector General fosters a culture of integrity that contributes to public confidence in state government.
PUBLIC CORRUPTION AND FISCAL IRRESPONSIBILITY

Corruption and lack of fiscal discipline impair economic vitality, economic growth and burden citizens and taxpayers.
“High levels of public debt can threaten the fiscal health of a government by placing a long-term claim on the resources available ... and reducing the scope for supporting other important service demands.”

—Corruption and State and Local Government Debt Expansion
Liu, Moldogaziev and Mikesell, January 2017
Credits for this research

Corruption and State and Local Government Debt Expansion
Published in the Public Administration Review
January 2017

- Cheol Liu, KDI School of Public Policy and Management, South Korea
- Tima T. Moldogaziev, The University of Georgia
- John L Mikesell, Indiana University Bloomington
Economists have long studied the effects of corruption. In dozens of studies across different times and place the same sorts of findings emerge. Corrupt places grow more slowly than honest ones. Corruption reduces employment and investment as businesses see greater risk from dishonest dealings. Corruption siphons off tax dollars, leaving infrastructure in disrepair. Corrupt places have schools with fewer resources and students suffer as a result.
WHAT
Let’s Define Corruption

Misuse of public office for private gain
Crimes involving abuses of public trust by government officials.

-U.S. DOJ

- Accepting bribes
- Awarding government contracts to vendors without competitive bidding
- Accepting kickbacks from private vendors for government business
- Overstating travel expenses or hours worked
- Using government credit cards for personal purchases
- Selling confidential information
- Falsifying official documents
- Theft of government property like computers, fuel, equipment, furnishings, supplies
- Mail fraud
- Extortion
- Robbery
- Soliciting bribes by police officers
- Narcotics offenses
- Smuggling illegal aliens
- Sexual misconduct
IMPACT
Impacts of Corruption on a Community’s Economic Vitality

States with greater instances of public corruption have higher aggregate levels of state and local debt.

- Corruption affects bond pricing
- Corruption affects government credit risk
- Corruption impacts long term debt more so than short term debt
- Private purpose debt is more susceptible to public corruption
Misuse of public office for private gain

From Clerk Treasurers to Building Commissioners to Sheriffs to Mayors and Legislators and beyond

Impacts of Corruption on a Community’s Economic Vitality
Detroit, An American Autopsy
By Charlie LeDuff

A story about the fall of the Motor City
Indiana

Where is Indiana on the list?

Indiana ranks as having the 5th lowest debt level of all 50 states.

Indiana ranks as having the 16th lowest corruption per public employee.
Fiscal responsibility implies a government pursues the appropriate level of government spending and tax to:

- Maintain sustainable public finances.
- Ensure fiscal policy aids the optimal rate of economic growth.
- Maintain appropriate levels of public investment.
Fiscal Responsibility

Public debt, when it exceeds the ability of a government to service it, also has similar impacts. Opposite of what is good

How high is too high? Do you know it when you see it, but can’t define it?
Real Issues in Indiana Communities

- Gary Schools – emergency manager in place
- Muncie Schools – emergency manager in place
- Gary City Court – a reported 200,000 case backlog
- Terre Haute – millions of deficit spending over a decade
- Bunker Hill Clerk Treasurer
- Worth Township, Liberty Township, Washington Township
- Muncie Building Commissioner and Muncie Sanitary District
- Lake Co. Sheriff
- Munster School District Administrators
Indiana

Fiscal Irresponsibility

Terre Haute??

Muncie Community Schools??

Gary Schools??
WHY
The Slippery Slope of Fraud

1. It doesn’t start out as dishonest.
2. It starts with pressure.
3. It starts small.
4. It starts with gray areas.
5. It grows over time until.....
6. There is no way out.

Michael R. Young, Accounting Irregularities and Financial Fraud: A Corporate Governance Guide
Common Rationalizations

1. I’ll pay it back.
2. It’s for a good purpose.
3. I deserve it.
4. They can afford it.
5. Nobody will get hurt.
6. I’m not a crook.
7. Everyone does business this way.
The Fraud Triangle

Perceived Pressure

Perceived Opportunity

Rationalization
Why People Don’t Come Forward

- Fear of Retaliation
- It will not be confidential
- Fear of being labeled as a “tattletale”
- Nothing will happen
- It has no personal impact
- Don’t know how or who to contact
PUBLIC RESPONSE
What can we do as members of a community?

VOTE FOR NEW LEADERSHIP
What can we do as members of a community?

Demand and Assist in Prosecution
What can we do as members of a community?

___

Demand a Code of Ethics that Mirrors the State Code
THE CODE OF ETHICS

- Gifts - Donor and Donee Restrictions
- Honoraria
- Political Activity
- Moonlighting
- Conflicts of Interests; Decisions/Votes
- Conflicts of Interests; Contracts
- Additional Compensation
- Bribery
- Benefiting from Confidential Information
- Divulging Confidential Information
- Use of State Property
- Ghost Employment
- Post-employment Restrictions
- Nepotism
Hoosiers deserve to know that government decisions are being made in the public interest, not because of gifts, political contributions, or undue influence; 

. . .

It is imperative that clear ethics guidelines be developed and rigorously enforced to ensure that all state employees meet the highest standards of conduct;

- Executive Order 05-03
What can we do as members of a community?

Offer and Demand Education on Ethics
What can we do as members of a community?

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Develop Protocols and Internal Controls
(checks/balances)
What can we do as members of a community?

Create a Method
to Report
Wrongdoing
What can we do as members of a community?

Create Positive Pressure for Change
Credits

Special thanks to the following resources:

- Presentation template by SlidesCarnival
Lori A. Torres
Indiana Inspector General
Thank you
Question & Answer Session
Thank you to our table sponsors:


Ball State University’s
Miller College of Business  and  Department of Economics
Special thanks to our event sponsor:

First Merchants

THE STRENGTH OF BIG THE SERVICE OF SMALL
Thank you for joining us and...

Seasonally Adjusted Greetings!

From the Ball State Business Roundtable & staff at CBER