

**The Economic Club of Indiana
Indiana's Economy and Its Prospects**

**Governor Mitch Daniels
March 24, 2010**

Transcribed from extemporaneous remarks

Thanks to my old friend Alecia, and to everyone associated with the club. It is often my practice when you get a truly special invitation, like this one, to say “Oh, that’s great. Who cancelled?” In this case, it was Steve Forbes. I recognize I am a poor substitute. Steve Forbes has written six books, and I’ve written one. He publishes *Forbes Magazine*. I guess I could say I publish *Outdoor Indiana*. He’s run for President of the United States. I’ll leave that one right there... [Laughter and applause]

I’ve been a fill-in before. I know how to do this. My favorite story about this, I saw it in *Sporting News* one time, involved indirectly our own Hoosier hero, Coach Knight. He for awhile thought about, and was very visibly thinking about, taking the job in New Mexico. Maybe you remember this, a long time ago. Ultimately he withdrew from the running, and they fell back to a guy named Mike Bliss. At Coach Bliss’ inaugural press conference, he and his wife met the New Mexico media for the first time, and somebody asked the natural if impolite question to Mrs. Bliss: “How do you feel when the whole country knows that your husband was not New Mexico’s first choice?” She said, “It doesn’t bother me, he wasn’t my first choice either!” [Laughter] I hope to meet her one day, before I go.

I brought a little slide show along. I got up one day last week and decided because this is a data-driven and well-informed audience, and also just as a little variety over the long oration, I would try to show you a few things along the way. I hope that it will enliven and not deaden the next half hour before we get to your questions. I promised Alecia this will not make her feel like she is back at work. I hope you’ve improved on this, but there was a whole lot of PowerPoint stuff when we were at Lilly together, as I recall. Alecia and I used to say that when a Lilly scientist passed away and presented credentials to Saint Peter, if challenged for entrance, the first words would be, “First slide please.” So here you go.

There are some statistics in here, but I hope you’ll find them of some use. My father spent his last years in an assisted living home here in town, and I was over there shooting the breeze with him one day, and I said, “Hey Dad, I read in the newspaper that in places like this the ratio of women to men is 6.2 to 1.” And Dad said, “That is the most useless statistic I have ever heard in my life.” [Laughter] So if any of these are useless, I apologize in advance. I am going to move quickly, because I know the questions will probably be the most illuminating part of all this.

[3:50] We have adopted as the objective of our administration—above and beyond, transcending all others—building the very best business climate we can in Indiana and raising the net income of Hoosiers. I thought today, at least for me, would be a useful time to roll the tape back and think about the five years of effort on this—what we’ve done, what is undone. To build a better

climate, to align our administration with this objective of a brighter economic future for Hoosiers, and then to talk a little bit about some things that are in front of us right now. **[Slide 2]**

[Slide 3] My colloquial term for this always has been, “to build the best sandbox in America.” One way or another we wanted to do all that we could do when we hit the door in 2005 with a lot of commitments and a lot of ambitions, and we got a lot of those things done. We cashiered the old state bureaucracy, which I thought had an unacceptably poor record. It was too slow, and too stodgy, and really nobody in there seemed to have any sense of business. We created something called the Indiana Economic Development Corporation, as a nonprofit corporation, and many of you are supporters—we thank you. It has proven, I think, a superior mousetrap—moving quickly and speaking business-to-business with people who might invest and take risks in our state. The 21 Fund is a fund that supports R&D efforts in this state, and we totally reconfigured it. It used to give money, with apologies to my former employer or other large companies and large universities—we love them all—but these dollars are finite and we wanted them to go to the new promising entrepreneurial companies that might blossom, and many of them have.

We increased the R&D tax credit in Indiana, now one of the highest in America. We instituted a Buy Indiana Policy that I will come back to later. I forget what DST stands for—at least I’ve tried to. [Laughter] And a host of other things aimed at generating more capital for business and a better chance to get your money back. **[Slide 4]** A rather minor item, but one that I wanted to draw to your attention because it was so emblematic, was the sales tax exemption we instituted on R&D equipment. Before 2005, for a long time, Indiana had exempted from sales tax manufacturing equipment: drill presses, lathes and the like. Why? Because they were understood to be tools of work. We did not exempt from sales tax centrifuges, spectrometers, computer equipment, or lab equipment. To me it summed up the mentality that looked backward to the economy we knew, and failed to understand the huge changes we were going to have to go through as a state. Now that is a level playing field, and we are as open to the new economy as the old one.

[Slide 6] 2006 was another big year. Major Moves was our shorthand for the Toll Road transaction that liberated trapped value—\$4 billion of it—for in essence an under-performing asset, and we are re-investing that money in the infrastructure which we think is so important to the future economic prospects of a state that calls itself the Crossroads of America. We reformed telecommunications in a way that no other state in the country has yet matched. You can go into that business in Indiana with one piece of paper essentially; you don’t have to negotiate with 92 counties or hundreds of local communities.

In what you may think of as a technical matter, but I hope to demonstrate otherwise, we moved from a three-factor to a single-factor sales tax. **[Slide 7]** Here is quick little Q&A for you: If your goal is to maximize growth, which of these would you tax: a percentage of a company’s sales in Indiana, a percentage of its workers worldwide that reside here, a percentage of the capital investment that it makes in Indiana as opposed to anywhere else, or all of the above? We were taxing all of the above. In other words, Indiana said to its corporations, “The more Hoosiers you hire and the more capital you invest in our state, the higher your taxes will be.” How does that sound? Now we simply say something different. We say we want you to hire everybody you can rationalize hiring, we want you to invest as much as you can here, and that’s

all tax free. And then we want you to sell your good or service all over the world. The more of that you do, the better off you'll be in Indiana.

[Slide 8] In 2007, a little step, but one that again says something, sends a signal to you and the to the rest of the economy: in Indiana, and only one other state that I know of, if you patent a good or service now, we will exempt from taxation, up to a certain size of business and for the first few years, the income you earn if you manufacture that product or produce that service here in our state. We are saying to the innovators of the world, there is no place more friendly, no place more excited about you and the new value that you might add to the economy than Indiana is.

We passed the health care plan that Alecia made mention of. It is bringing the peace of mind of health care now to 50,000 Hoosier families. Sadly, it is going to be eliminated by the bill passed the other day, but while it is here, it is not only doing right by low income people, but I hope it is taking some pressure off some smaller businesses knowing that some of their employees will still have health insurance even if they can't afford it.

2008 was the year of property tax relief, and as I will show you a little later on, this was, yes, initially and primarily about promoting home ownership, protecting those in their homes in this state, but it is also, as we always suspected, being found to be a tremendous enhancement to the business climate of this state. Of course when you lower property taxes by more than a third, cap them and provide certainty going forward, it can only mean good things for businesses directly, and good things for them indirectly as their customers and their neighbors have a little more disposable income.

2008 was the first year in Indiana state history that we achieved a AAA credit rating. As you know, that is at the intersection of a state's economic stability as assessed by the rating agency, and its fiscal policy. We are glad that then, and still today, Indiana is seen as one of the few states of that highest rating. We are determined to keep it, and we will continue to do things to enhance our sandbox each and every year, and we welcome your suggestions as to what those might be.

[Slide 9] Pursuant to building that kind of climate, we tried to staff our administration and point our administration entirely at the goal of enhancing the economic prospects for Hoosiers, particularly those Hoosiers who started with the fewest advantages. I gathered in a room in a hotel not far from here our first appointees before we took the oath of office, during the transition from election to inauguration. I said to them on that day that every great enterprise, profit or non-profit, I ever saw had a very clear objective. Sometimes it had been reduced to a phrase and everybody wore it around on a little laminated card, but one way or another everybody in the organization or the business knew what it was. And in the very best operations everybody knew what their part in delivering that objective was, and was being measured and rewarded based on how well they and their teammates performed their part. So the objective of our administration is to raise the net disposable income of Hoosiers. We're going to do everything we can do to bring more jobs here. We're going to bring jobs, if we can, that pay more than the current average, so over the long haul we try to bring up the average income of our fellow citizens. And we're going to do all we can to make government efficient so that we can leave more of those dollars in their pockets. We try not to stray very far from that objective.

[Slide 10] We put in a Buy Indiana program. It's responsible. We don't make any bad deals, but all else equal or almost equal, your state government buys from Hoosiers now. We don't know what the number was, but it has been estimated at only about 60 percent of state procurement purchased in the state back at our arrival. Today, we measure this every month. We're at 87 percent. We set 90 percent as a goal, which is arbitrary, I don't know what the maximum will be, but we're getting close right now.

I bring this up today because I don't want to miss this opportunity. You should think this way, too. I see far too many Indiana businesses, for no good reason I can identify, going out of state. I think it's the distant expert phenomenon: you can't imagine that that software company down the block can be any good, I mean, they live here. I've talked to a lot of Hoosier businesses, and there are some in the room, who can successfully win business on the east coast, the west coast, internationally, and can't sell a big company down the street. So I just ask you to think about your own self interest. This is not an act of charity. You'll be better off; we'll be able to keep your taxes lower, longer, if the businesses around you do a little better. You can go to Supplier Gateway at the IEDC and find a list of thousands of Indiana businesses you may not know about who might help you improve your margins.

[Slide 11] These are our investments in highway infrastructure, only. I could show you clean water and university construction bars on top of these. I just want you to understand that while across America there is a crisis, you've read about it ad nauseum, of crumbling infrastructure and totally inadequate public finances to even maintain, let alone improve it, Indiana is in the midst of a boom: hundreds of projects that are very important to a state that is a transportation, distribution, logistics hub. We are going on at record rates, and that will continue for the next several years.

Now, when we talk about aligning our administration and everybody having a role in it, it means things like this. Time is money, so we have said to people if business has to interact with you, we have not made one regulation one iota more lenient or relaxed, some have been toughened. What we have said to those people who have regulatory jobs in our administration is, we want you to be predictable and consistent, and we want you to be as quick as you rationally can be.

[Slide 12] So we measure things like the turn-around time for environmental permits, what you see here.

[Slide 13] Here is the turn-around time for tax refunds. Incidentally, if Indiana owes you a tax refund, we actually send you cash, not an IOU like Kansas or California. Isn't that quaint?

[Laughter]

[Slide 14] Here are waiting times at the BMV: 8 minutes and 6 seconds on average in December, if you are curious. [Applause] I know it does not have anything to do with business, but I just could not resist putting it up there.

[Slide 15] I just want to show you this picture to tell you a quick story. This is Medco, soon to open the world's most advanced, largest, most technologically amazing mail order pharmacy in

Whitestown, between Indianapolis and Lafayette, and it was a very spirited competition. Medco on a payroll basis is bigger than Honda, not as many people, but the jobs average over \$70,000 per. We are so proud to have them. This is a huge win for our state.

After it was over, as I always do, I asked them, “If you are willing to tell me, what were the tie breakers? Why us and not Kentucky?” There were a couple of answers, but the one that caught my ear was they said, “Your board of pharmacy.” I said, “Our board of pharmacy?” They said, “Oh, yes. We need scores of separate licenses to operate in every state.” I don’t know how this works exactly, but they needed a whole complex of licenses from wherever it was going to be. And the answer in the other state was, “Yes, our board meets quarterly; now the next agenda is full, but we can get you on in the quarter after that, and probably within a few months, if there aren’t any problems, we can handle this.” Our board of pharmacy helped schedule an emergency meeting nine days later and gave them the licenses in a week.

I love to take this story around our administration and say, “You may not think that whatever you are doing can bring the next job to Indiana, but if the board of pharmacy can, you are going to have your chance.” [Laughter]

[Slide 16] Now we come to my favorite part of any such program, the maps. This is AAA Bond Ratings. Did you notice the other day—someone was speaking of Warren Buffet up here—in the last few weeks Berkshire Hathaway, Procter & Gamble, Lowe’s and Johnson & Johnson, their debt all traded at less than two year treasury notes. Moody says that Uncle Sam may lose its AAA. It is an amazing thing to think that your state may have better credit than your federal government. But they may lose theirs; we are going to try to hold onto ours.

[Slide 17] So here is low cost of doing business, I hope the product of everything we just talked about.

[Slide 18] Here are low taxes all by themselves.

[Slide 19] Here are workers’ compensation rates, we are in the most affordable five or six states.

[Slide 20] This is overall business climate of the country by *Site Selection Magazine*.

[Slide 21] This is the last CEO Survey. Indiana, again, an island along with some of the Sunbelt.

[Slide 22] This is CNBC Business Friendliness overall. This is the objective we are constantly seeking.

Now, we all know, and have known for a long time, that Indiana stood on too narrow of a base. We have been a manufacturing powerhouse, may it ever be. But, it is absolutely essential that we broaden our economic base, and we have been working on this.

[Slide 24] These are the 800-plus transactions in which the IEDC has been involved. It is obviously just a fraction of the economic activity in this state, but you will notice, this is manufacturing, this is auto, still a big piece of this, this is other, TDL is Transportation,

Distribution and Logistics, note the growth of IT, our fastest growing sector in the last couple of years, and life sciences. Think about the changes we have seen. I get to see them in this job all the time.

[Slide 25] This is the Thompson Television plant that was one of the last plants, I guess the last plant in America, that was still making old vacuum tube TVs up until not too long ago, very sadly. Nobody buys those anymore and they went out of business.

[Slide 26] In that facility now is Cook Pharmica, a biotech manufacturing company on the front edge of the life sciences.

[Slide 27] Down in the southern part of the state are women, like the one whose hands are pictured here, who were seamstresses in a business that's not much done in America anymore. Turns out they were very well trained to put catheters together at MedVenture, an exciting company we brought across the river from Louisville. They make equipment and parts for the medical device industry.

[Slide 29] Our life sciences industry is growing fast. This room is full of people who have participated through BioCrossroads and in other fashions in making this a reality in our state. It is achieving that virtuous cycle in which one company can lead to the next and to the next. Basically on the corridor between Lafayette and Bloomington, but as you see here, spread out much more widely than some may have realized.

[Slide 30] We have a defense industry of sorts now. I must admit I was a little skeptical of this one to start with, but have been persuaded and won over by the evidence and by our success. We were at the brink four years ago of seeing the very last installation disappear from Indiana. Fort Ben was in jeopardy of going away, and only a great goal line stand saved the Crane Surface Warfare Center. Now we have four. The Fort Ben finance center is bigger than it was. Camp Atterbury is the mobilization and demobilization point, the biggest one in the country. Crane is thriving and there are tech parks springing up along its borders. If you don't know what Crane is, go check it out, it's a incredible hidden asset for us.

[Slide 31] We are building the biggest urban warfare training center in America on what was to be bulldozed at the old Muscatatuck State Hospital. Fifty-thousand people in five hundred different units of all kinds will train there this year, and the number is shooting straight up. Each one of those people comes equipped with a per diem check. [Laughter] A lot of the folks who are shipping out for Afghanistan to work in reconstruction, not just for military purposes anymore, yes, Special Forces are there, snipers are there, they can practice urban warfare tactics, but also a lot of Hoosiers are now role playing. It's a fascinating thing to see people role playing Afghani citizens or Iraqi citizens, and this is, we believe, a real cash generator for us going forward.

[Slide 32] This is defense contracting growing off a low base for a state our size, but growing very fast. Here is one you may not have paid a lot of attention to, but we think it has promise.

[Slide 33] We started out saying we do not want to slip into the position of being an energy importer, and all the forecasts had us doing that. We are a little more ambitious on that now. Energy is not only a critical input and enabler, affordable energy is part of that low-cost structure that we show people, but it can be an important industry in its own right.

[Slide 34] I think you may know that we have been the leading state in terms of the growth rate of wind power in the last two years. Here are some out in the northwest. An unidentified motorcyclist is admiring the growth of the Benton County Wind Farm. [Laughter] But it's not just wind power.

[Slide 35] We are now a national leader in biofuels, important to our Ag economy, but also it's bringing investment and jobs and income to some of our rural communities that had not seen any in a long time. The world's first true, clean coal plant is under construction at Edwardsport right now. Soon, we hope, to be followed by the world's first true coal to natural gas plant not too far from there.

[Slide 36] Automobile manufacturing is very interesting. Of course you know our heritage here, but the face of that industry has changed substantially: far fewer workers, but producing more units. This is the same story in steel, by the way.

What you need to know is that we are gaining market share in autos, from seventh to fifth in vehicle production, and our overall share is predicted to go as high as third, maybe it can go higher. Diversification does not mean walking away from traditional strengths, it means building on them. Of course the nature of that industry has changed a lot in this state. We have more than twice as many people now employed by internationally based companies as we do by the legacy companies General Motors and Chrysler. A huge multiple of vehicles actually assembled here are at Honda, Toyota and Subaru. It is getting hard to know what to call these things anymore. Last year an annual survey by Cars.com measured the content of cars, and the most American car company was Toyota.

[Slide 38] The cars themselves are changing. We think we have a great chance in Indiana to lead the electric car transformation that I believe is coming. Again, I started a little doubtful on this, but I am now convinced that this is not only a great thing for America, but can be very practical. We have four companies already, more than anybody else producing or planning to produce vehicles in the state; not to mention the new opportunity this has created for companies like Delphi with their long tradition in automotive electronics. The batteries for the first street production cars, which we think will be the THINK vehicle, are going to come out of EnerDel on the northeast side of Indianapolis.

[Slide 39] I can't leave this point without mentioning that existing businesses—all the efforts we make to help them grow and all the efforts we make to woo them to our state—will never be a complete answer to the Indiana economic strategy. Harder to get one's hands on, but essential to concentrate on, are those dynamic, unpredictable businesses that spring from the genius of free people when they're enabled and encouraged to start new enterprises and try new ideas. A story in the last day or two in the paper here mentioned yet another venture fund in this state that

would add to a growing trend: more available capital for the dreamers and the innovators that we seek to woo and welcome.

[Slide 41] Let me talk for just a few minutes about some things that are just ahead of us here. You will get a chance this fall to vote on making property tax reduction and limitations permanent in our state. This vote would amend our constitution. It would not be necessary, but for the very real possibility that the language of our 1848 constitution might not permit the bill as it was written. We have to modernize the constitution to fit the bill. I hope you will vote “Yes.” I think you would be wise to do so, and not merely because your home will be more affordable, more valuable. Your children’s first homes will be more purchasable, your parents’ homes will be more easily financed, but also because this, as we always suspected, is going to be good for business in this state. Ball State University recently completed their analysis on it and forecast, as you see here, a substantial boost to both employment and income in Indiana over time.

[Slide 42] Unemployment insurance is much in the news. I think you know that an effort was made last year to make this system a little more self-sustaining and that it has been postponed for one year while we await events around the country. Here’s what you need to understand about unemployment insurance. We have been living with a very lopsided system: Some of the lowest premiums in America, 40th by the latest measure; some of the highest benefits in America, 3rd by the latest measure. This system was leaking money when we were at full employment two years ago. I asked people who were around when this arrangement was set up, “what did you expect to happen with very low premiums and very high benefits?” They said, “Well, we expected we’d have to fix it one day.” Thanks a heck of a lot; that someday is now.

We will have to deal with this, but I recently came across a quote from the old sea lord of Britain a hundred and some years ago, Jackie Fisher, who in a different context said, “Now that the money has run out we will have to begin to think.” [Laughter] So that’s the story about unemployment insurance. As we think, do bear this in mind, not to minimize the importance of this at all, but this is a relatively small fraction of the total business taxes paid, 6 percent. **[Slide 43]** So if and when it is necessary to adjust, as we should, both the premiums and the benefits, let’s not over-estimate how much it changes. By the way, the change of last year when factored into those business tax rankings I talked about didn’t move us at all, didn’t budge us. So I’m glad we postponed it. We need to find a more balanced approach to this. We need to see what the national picture is like. Two-thirds of the states are already in arrears as we are so it’s almost a universal problem, but we will approach it with common sense when the time comes.

[Slide 44] Here is the biggest one: Fiscal year 2010 is the lowest receipts, forget inflation, just in nominal terms, the lowest receipts in six years since fiscal ‘04. Next year, and this is probably the most important data point, even if we get a rather smart bounce back in revenue as the forecast, which has not held up for seventeen straight months, but assume it does and we get a big bounce back in revenue—we will still have fewer dollars to work with than we did in 2006. Basically back to the levels of six years before. Some of you may be running a business with a lower top line six years later, but if you are I’m sympathetic. I know what you’re dealing with and now you know what we are. So if you think the budget process this year was difficult, just wait.

[Slide 45] These are the reserves. You will remember that we had at the close of the last budget, just nine months ago now, \$1.3B. There was big debate about it and eventually there was a compromise that we would spend \$300 million and keep a billion. That did not happen, and will not. As it turned out revenue is running so far below even the lowered forecast from last June that it's going to take all our reserves basically to get through this budget cycle. We will use the savings account, the rainy day funds. That's alright that's why we've worked hard to create them in the first place. By the way the red line is the "do-nothing" line. The budget passed just months ago, if we had spent to the level of that budget, we would have run out of reserves late this summer. Of course you don't do nothing in that situation; we've done a number of things, and no one is happy about them. We get a lot of criticism for them, but it took all those steps, including reductions in higher-ed and education, to get us to the end of the budget cycle using all our reserves. That's how difficult this process is.

[Slide 46] This is what we haven't done and don't intend to. These are states raising taxes. Some of the worst examples are all around us. Why are we so resolute about this? First of all because people who are struggling in a bad economy right now do not need more of their scarce dollars taken from them, but I'm going to end where we began.

Every month that goes by that we find a way to keep things glued together in Indiana without raising taxes on individuals, on consumption, on businesses directly while other states take the easy way out and raise them, as Illinois is just about to double their income tax, Indiana gets a little bit more competitive. Our sandbox looks a little bit better compared to the one next door or the one on the coast. That's why we're so committed to this.

It is our goal, it is our ambition, that Indiana and the young Hoosiers coming up have every economic opportunity possible, that there is no better place for the existing or the new business anywhere in America, because we know there are no more deserving people, no more deserving workers of the future, than the young people we are raising right here. Thank you for your attention, I look forward to your questions. [Applause]

Question and Answer Portion

Q: Well, we have a few questions that have already come up, one of which may not be a surprise to anyone in this audience: have you made any decisions yet about who you will select as your running mate?

GOV: Well, as far as I know the filing date for the Columbia Club officers is not for another few months, so the answer's no. [Pause] I can wait longer than you can, Alecia. [Laughter]

Q: Do you know whether or not Attorney General Greg Zoeller will pursue legal action against the federal government regarding health insurance reform?

GOV: I believe he will, I've encouraged him to. [Applause] I'm skeptical that there will be a judicial rescue although there are some very good arguments I think to be made. This is the first time, I think it's historically inarguable, this is the first time that the federal government has attempted to order individual Americans to purchase something and to spend their money on

something, but I have no way of knowing whether the courts would give, how much deference they would give, to Congress on this. I think there are some important principles to be spoken for, and I do believe Indiana should join what looks to be a large number of states, and also private actions, that will raise those questions.

Q: Thank you. Somewhat along the same lines as health care reform, but turning a little bit: Now that Obamacare has passed, do you think the national value-added tax is inevitable and what do you think will be the ultimate impact of that?

GOV: I don't know that it's inevitable. I think it's inevitable that there will be attempts to impose one. I don't think I need to spend anytime in this audience persuading you that this nation has piled up an absolutely mathematically unsustainable, unaffordable set of commitments already, and that was before Sunday night. Whatever the spectrum or continuum of views in this room about how large or small, expansive or limited government should be, set all that aside for a moment. If you can do sixth grade arithmetic you can tell we cannot possibly pay the bills we've already piled up. We cannot possibly meet the commitments that we have made to ourselves and Social Security and Medicare and so forth. The bill of Sunday—again, people can think it is good or bad healthcare policy—but I'm here to tell you it is fraudulent to assert that it will not add to the debt to this country. [Applause]

I spent a sentence in federal employment not that long ago; I know a little about how these things are done. With every gimmick known to man and some new ones they managed to pass the Washington straight face test, but that's an easy test. Somehow over ten years this thing will break even. Well, I think you've read enough to know all the reasons that is absolute bunk. Let's not kid anyone, even if you love the policy this has made the debt problem worse. It's going to make it much worse, and so yes, I think people before long will be arguing for a value-added tax.

The idea of replacing taxation on income with a consumption tax, I think, is worth looking at, and that's been batted around for a long time. It makes some sense, honestly, if you can tax investment and risk taking and hard work a little less and tax consumption more, which is largely voluntary, in an even exchange you might have done something good in building the national sandbox. That's not what is going to be suggested of course. This is going to be suggested on top of the taxes of today due to the desperation of the debt situation, and all I can say is we better be careful. One thing that people who like taxes like about the value-added tax is, this is the boiling the frog thing, you can just dial that dude up a little bit at a time and most people won't notice. So it's a real engine for generating a lot of money or transferring a lot of money from the private to the public sector. Yes, I think you'll hear more about it in the context of a major fix to this immorally, I choose that word carefully, immorally huge burden we're about to place on our children. I wouldn't rule anything out.

Q: Thank you. There are a number of members of the audience who are curious about your thoughts regarding education. Comments and questions range everywhere from lower property taxes meaning less money for schools, balancing the budget on the backs of schools, and in general, I think the question is its very important to have a well educated workforce to have a strong economy, and so what in your view are the keys to improving education in our state?

GOV: Well, it isn't money. If it were money we would have fixed this problem by now. Thinking this might come up, I have come prepared. First of all let me say I am all for more investment in education. We have raised it every single year until this year. We have raised it 12 percent during the years I have been serving as governor. All else equal, I am for that.

Second, the 3 percent, really 2.7 percent reduction in operating spending that we were forced—after doing everything else first—to impose is tiny compared to what has gone on in most states in this country. One downside, I suppose, of keeping things glued together as Hoosiers have, is unless you pay a lot of attention, you do not realize how bad it is elsewhere. The media asked me a little while ago, “What keeps you up at night?” I said, “I sleep pretty well, but if I don't, I don't have to count sheep, I just count all the states I'm glad I'm not the governor of!”

[Laughter]

Education, for the first time in Indiana state history, is half the state budget. We had squeezed everything else as hard as we could, and eventually we had to go there. Anyone who says we should spend more on K-12 education now is telling you, “I want to raise your taxes.” That's the only other choice; we are using all the reserves, as I showed you. So an honest advocate of that position should start by saying, “Here are the taxes I want to raise.” Is it business, is it income—what is it? Sales? You know, we can't print this money like Washington does.

[Slide 59] This is K-12 education going up and up and up, from 1995 on the left to 2009 on the right, all time records. The same is true if you count in the local and federal funds.

[Slide 61] Now this is per pupil spending. We are in the top 11 or something like that. This is nominal dollars, but this is not the whole story. Indiana is a 92 cent state. It is less expensive to live here. Everyone in the room knows this, and the national data is quite available. If the average cost of living in America is 100, we are 92. It is one thing we like, it's part of that better sandbox that we offer businesses. When you adjust for the cost of living, our per pupil spending is 3rd in America. Now I'm proud of that and you should be too. We revere education in this state. We put our money where our mouth is. But those that demand more, more, more, at some point should please recognize we are trying here.

[Slide 63] This is K-12 spending as a percent of personal income; we are 7th in America. There are only six places where people dig deeper into their pocket to support K-12. Again, it's something to be proud of.

[Slide 64] This is how much of your tax dollar actually gets to the classroom. We don't look very good. Almost nobody in America does. There are only a couple of states that get 70 cents to the classroom. We are closer to 60. There is a huge increase in education spending, the kind that matters, available if your local school board and superintendent would work half as hard on doing the common sense business things that you've all done, outsourcing this and that, combining overhead where you can, there is an ocean of money available. If they would spend more time at that, and less time lobbying at the Statehouse, “just give us more and go away,” our kids would be a lot better off.

[Slide 65] This is teacher pay. We are well above the average, but that doesn't account for the 92 cents.

[Slide 66] There we are adjusted for the cost of living. Now, I like that too. I hope we can make that more. Not for every single teacher. I happen to think the best teachers should get paid a lot more than this. There ought to be some measurement to see who's really getting results and who's not. I'm a sports fan, but frankly I think the physics teacher should get paid a lot more than a physical education teacher. There are things like that we don't do in Indiana. [Applause]

[Slide 67] We pay our teachers more than a lot of other professions, professions represented in the room. Honorable ones like nursing and accounting. We pay teachers about as much as architects in Indiana. I'm for this; I'm not against this.

[Slide 68] When you look at this compared to other states, our teachers' pay compared to other professions' pay is very, very good. It is simply factually not true to suggest that we don't invest in education and are not trying our very, very best to do well by the people who are part of it.

[Slide 69] In this economic circumstance, I think it is only fair to note that the average teacher in red is paid \$10,000, \$9,000 plus, 26 percent more than the average worker whose taxes pay for that job. That's okay, teaching is real important. But in the last year the average worker in this state saw their income go down, the average teacher pay is going up 4.4 percent this year. I have to ask the fairness question: might it not be fair to take a time out? We've had to ask state employees who work pretty hard to take a two year timeout from pay increases. I don't think it's an illegitimate question to say if there is a school district having some trouble: hey, we could use a little help from everybody.

So, now are you sorry you asked me an education question? Well, I think these facts are of some relevance, I don't know what you think. We are all trying to get through this. We've got a lot to do in education and it's going to involve more money. The sooner we can get there, the happier I'll be. But in the near term we need a little balance in the debate. We need a few more facts; I hope you have learned a couple.

Q: If you had the ability to reach beyond the state and fix Social Security, how would you do that?

GOV: I don't think Social Security should be so hard to deal with. You know, maybe it's naive, and I know all about third rails and so forth, but we are going to have to have a grown up discussion about this in this country and pretty darn soon. I know it's easy to demagogue and just wave the granny card and stifle debate. But dog-gone-it, somebody is going to have to try. You know, it won't take a genius.

One night, way back, I was watching Monday Night Football way back and somebody called Bill Walsh, the 49ers coach, a genius, and Joe Theisman said, "Now wait a minute, this is football. There aren't geniuses in football. A genius is someone like Norman Einstein."
[Laughter]

Here's what I think we ought to say to each other as Americans. Medicare by the way is a little harder, but Social Security, let's just start there. There's a menu of things we can do. I for one can go for any number, any combination off that menu that protected today's and tomorrow's beneficiaries and did right by the younger generation. It doesn't come up that often in my job, and I don't bring it up; I stay in my lane, Indiana. But when I'm out there all the time and a citizen asks me, I say, "Well look, why are we paying for Bill Gates' healthcare? Why are we sending a pension check to Warren Buffet? Does that make any sense to you?" They say, "Well, no." Not to me either. The money we have ought to be for the folks who really need it to make it through their elderly years. I said, "If you knew that your Social Security benefit, the one that's being paid today, would be protected from inflation all the way out, would that sound fair?" They say, "Yeah." They don't realize that we do more than that today.

If you retire today you are going to get less than the guy who retires in 10 years because they index it to wages and not cost. Would you retire a little later? Yeah. And then here is the big one to me. We are going to finally have to do this, I predict to you; we are going to have to bifurcate these systems. We are going to have to say, "Hey, that Social Security system and that Medicare system we have had, that's great, they've been really good, but you know what, the math doesn't work, we cannot manage it anymore." What we are going to have to do is protect everyone that is in there or that is within—you pick it, 10 years, 12 years, some years from now, nothing changes and you are good to go. But all you younger folks, we just can't afford that—you can't afford that.

Today's workers are paying for today's retirees; there is not a little box with your name on it. You paid for dad and now your kid is going to pay for you. So, you just say we are going to have to have something a little different. There are a lot of ways you can do that. I don't think this will strike America as radical. Why? Some of you are thinking it right here in the room: we've done this. Tens of millions of Americans have been through this already. In both public and corporate America there are all sorts of places where people have gotten to that point. "Hey, we are not funded anymore; we are going to have to have an old plan and a new plan." We have an old teacher's plan and a more recent teacher's plan. This is just a common sense step, and once you decide to take that step you can fix Social Security, and we can do it for Medicare too. And if this whole business called democracy, government by consent of the governed, is still valid, dog-gone-it, we can be adult enough to solve this problem and all the rest we have too.

Thank you all very much.

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