Governor Pence's 2014 Economic Plan

December 17, 2013

I'm here to talk to you today about my vision for Indiana's economy. Every day, politicians and TV commentators talk about the "economy" as if it's an impersonal, vague "thing" for which policymakers set rules and in which businesses participate. But our economy is much more human and dynamic than that. The word "economy" comes from a Greek word meaning "household" or "family." Shortly after the father of modern free-market economics, Adam Smith, coined the term "invisible hand" to describe how free exchange makes a society better than government could, he wrote that "prudence in the conduct of every private family can scarcely be folly" in a great nation.

Our economy begins at home. It is driven by people – leaders who take an idea and run with it. They put together a plan, they raise money, they find customers, and they work hard to deliver. When they succeed, they create not only wealth for themselves, but opportunities for others. They create jobs that help other people fulfill their dreams or at least provide a stepping stone toward their dreams.

Going back to the days when I was applying for my current job, I said I would make jobs job one in Indiana. And that's what we've been doing. And so have you. Because of the resilience of hard-working Hoosiers like you, we are making progress.

In October 2012, our unemployment rate was stubbornly stuck at 8.4 percent. Today, it's down to 7.5 percent, the first time it dropped below 8 percent in 5 years. Since the low point of the recession in 2009, Indiana's private sector job growth rate is 5th in the nation. Since the recession's low point in 2009, Indiana has added 60,000 manufacturing jobs, 2nd in the nation both in the total number of jobs and the rate of growth. We are also 2nd in the nation in job growth in trade, transportation, and utilities.

And right here in Indy, our growth in tech and STEM-related occupations is 9th fastest among the nation's 52 largest metro areas in the past decade, and 1st in the Midwest.
In the midst of all of this good news, we still have a long way to go. CEO magazine may rank us the 5th best state for business in America and 1st in the Midwest, but we are 37th in entrepreneurial activity over the past decade and a half because new businesses aren't starting here as often as they should. We may be 14th in the nation in the percentage of people enrolled in college, but we're 43rdin the percentage of people with college degrees. We are 2nd nationally in the number of freshmen who come to our state for college, but the vast majority leave after they graduate. Meanwhile, 54 percent of jobs in our state are middle-skilled positions, but only 47 percent of Hoosiers have the skills needed.

We will overcome our challenges by realizing our potential as America's #1 aspirational state. Indiana should be the place where dreams come true and future leaders are born.

I want Indiana to be the place where people with big dreams feel most at home.

To be that place, we need to focus on three things: continuing to make our environment hospitable to new investment; developing a workforce with the skills of tomorrow; and growing and attracting world-class talent.

We've begun to make progress in addressing these challenges.

Earlier this year, the General Assembly passed, and I signed, the largest state tax cut in Indiana's history, which returns nearly $900 million back into our economy every two years instead of into the non-productive coffers of government. The tax cuts in the budget, when fully implemented, will give us the lowest tax burden in the Midwest.

Ensuring low taxes and ease of business is critical to a growing economy. But you can't cut taxes if you're not fiscally disciplined.

That's why we honestly balanced our budget, with more than $150 million in annual surplus and $2 billion in reserves. We've paid off $300 million in debt in the past year and have reduced regulations by 52 percent. I hear all the time from CEOs that this kind of fiscal discipline is important in their location decisions.

Businesses are not the only ones watching how we manage our finances. We received word on December 5th that all three ratings agencies have maintained Indiana's AAA rating. None of our neighbor states can say that. And the Tax Foundation recently added us to the top ten states with the lowest tax burden.

We're just getting started. We can't afford to stand still, because in America, states are constantly competing with each other for jobs and investment.

That's why I have called on our legislature to phase out the business personal property tax.

We currently have the 19th highest personal property tax rates per capita in America. This tax is a direct tax on investment. It discourages companies from investing in new technology and the expansion of their businesses. As the most manufacturing-intensive state in the nation, we are holding back new capital investment because of our business personal property tax.

Our neighbors to the east and west of us, Illinois and Ohio, don't have this tax, and Michigan is in the process of phasing it out entirely, beginning by exempting personal property purchases up to a specific level, and then phasing it out incrementally until all personal property is exempt by 2024. Moreover, many of the states that do have the tax – like Kentucky – have lower rates than we do. I hear about this repeatedly from CEOs looking to relocate in the Midwest.

Some critics have characterized getting rid of this as a tax break for big business. The truth is that all businesses – big and small – pay this tax. It's as much a tax on the new, small business as it is on a large company. The vast majority of businesses in Indiana paying this tax are small businesses – barber shops, professional photographers, coffee shops, family farms – you name it. Every type of business you can think of.

The business personal property tax is a tax on their ability to invest in equipment and capital improvements that are needed to create new jobs at the local level.

Let me be clear and repeat what I have said publicly about how I think we should go about this. As we look to phase out this tax, we should do so in a way that does not burden local governments or make it harder for them to meet their obligations. We will work to empower communities and local governments in this process. Time and economic growth should be our friends here, making it possible to phase out the tax while protecting local governments.

I believe we can successfully reform this tax, but I purposely avoid laying out a single path at this point. There are a number of options for us to consider, and I believe the legislature should have a robust debate about them. For instance, we might consider eliminating the artificial 30 percent depreciation floor so companies would no longer be paying this tax indefinitely. Or we might allow our local counties to make the decision by providing them the option to eliminate or phase out the tax. Or we might consider a gradual phase-out of the tax by exempting new investments purchased after a specific date. We also could explore a combination of these strategies, such as eliminating the 30 percent depreciation floor on all new investments.

However we go about it, we should not shy away from recognizing the burden of this tax on new investment and growth for businesses in those communities.

This brings me to another important point: the economic base of our communities. We have to take the economic vitality of our state's cities seriously if we hope to remain economically competitive in the future. So I am calling on our Indiana Economic Development Corporation to conduct an assessment in 2014 of how we could raise billions of dollars in new private investment over the next decade for our centers of population and productivity.

Our idea is to bring this new investment into Indiana cities in ways that allow them to compete with dynamic, growing regional cities across the country, make them attractive places to locate new enterprises, and make them appealing for talented workers looking for a place to make a living and raise a family. Over the next year, our economic development corporation will detail evidence-based drivers of metropolitan, economic growth. The goal will be to develop options for financing this new investment in the kinds of things that attract the best talent and the most capital.

It's imperative that we do this. Our labor force in Indiana is expected to grow over the next few decades at less than half the rate of its average from 1950-2000, and our working age population is expected to decline by 5 percent by 2030.

Research by Enrico Moretti at University of California Berkeley shows that as regions attract more professional talent, the economic benefits expand the services and other sectors of the economy. Wages rise across sectors. Wealth begets wealth, even outside the sector in which it was generated.

Our assessment will also consider how to ensure the benefits of the investments in our cities extend to the outlying rural areas. Research has also shown that income and population growth in metro areas benefit rural areas. When metro areas decline, so do surrounding rural communities.

Our tax and economic development policies are aimed, in part, at attracting entrepreneurs and new investors to our state. For this reason, I have called on our private sector leaders – and I'm thinking first and foremost of our leaders in our tech and STEM-related companies – to create a talent fund that a group of our smartest, best-connected business leaders can use to recruit entrepreneurs from outside Indiana to move them here.

If our leaders do this, I pledge to assist. But this leadership has to come from our dynamic private sector. I think the time has come to recognize that economic development has mostly to do with attracting and investing in people, not just companies. I'd like to see us be the first state to systematically put this into practice.

We are also proposing legislation in the next session of the General Assembly that would make it easier for new companies to raise capital by aligning our securities exemptions with the federal exemptions, removing additional barriers to selling equity that currently exist in Indiana. We will also promote crowdfunding and plan to make the venture capital tax credit transferrable – all in an effort to diversify and expand the sources of possible capital for startups.

Finally, as we redouble our efforts to up the talent quotient in Indiana, we need to do all we can to make sure our homegrown talent has the skills needed for tomorrow's economy. That is why we launched 11 regional Works Councils this year, with the responsibility for answering this question: What should the career and vocational educational curriculum look like in the schools in this community to connect high school graduates with promising jobs in this community?

By next year we will have curricula in our high schools and new business-driven partnerships. While anyone who wants to go to college should, there are a lot of jobs in Indiana with great upward mobility prospects that don't require a college degree. These new partnerships will make this work for all Hoosiers.

To ensure we succeed, I am proposing legislation that will conduct an in-depth, return-on-investment assessment of how our career and technical education dollars are being spent across the state. We need to know what the results are, and whether local vocational education facilities and faculty are being used as they should.

And as we continue to bridge our skills gap, we need to make sure that adults who have their high school degree, but find the economy has passed them by, get the skills they need to get back on their feet. That's why I'm proposing legislation that would repurpose current job training dollars into a performance-based training program for these adult workers, with a focus on placing them only in high-demand, high-wage jobs.

Let's conclude by agreeing that Indiana is facing a new season of opportunity. We are, I believe, the nation's #1 aspirational state, poised for growth in a way that benefits all Hoosiers. We cannot rest contented with our recent progress. Now is the time to press down on the accelerator and move forward faster than we have in the past.