

22nd annual

Indiana **ECONOMIC** **OUTLOOK**

December 7, 2017

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THE STRENGTH OF BIG THE SERVICE OF SMALL



The **2018** **Economic** **Forecast** *for the US & Indiana*

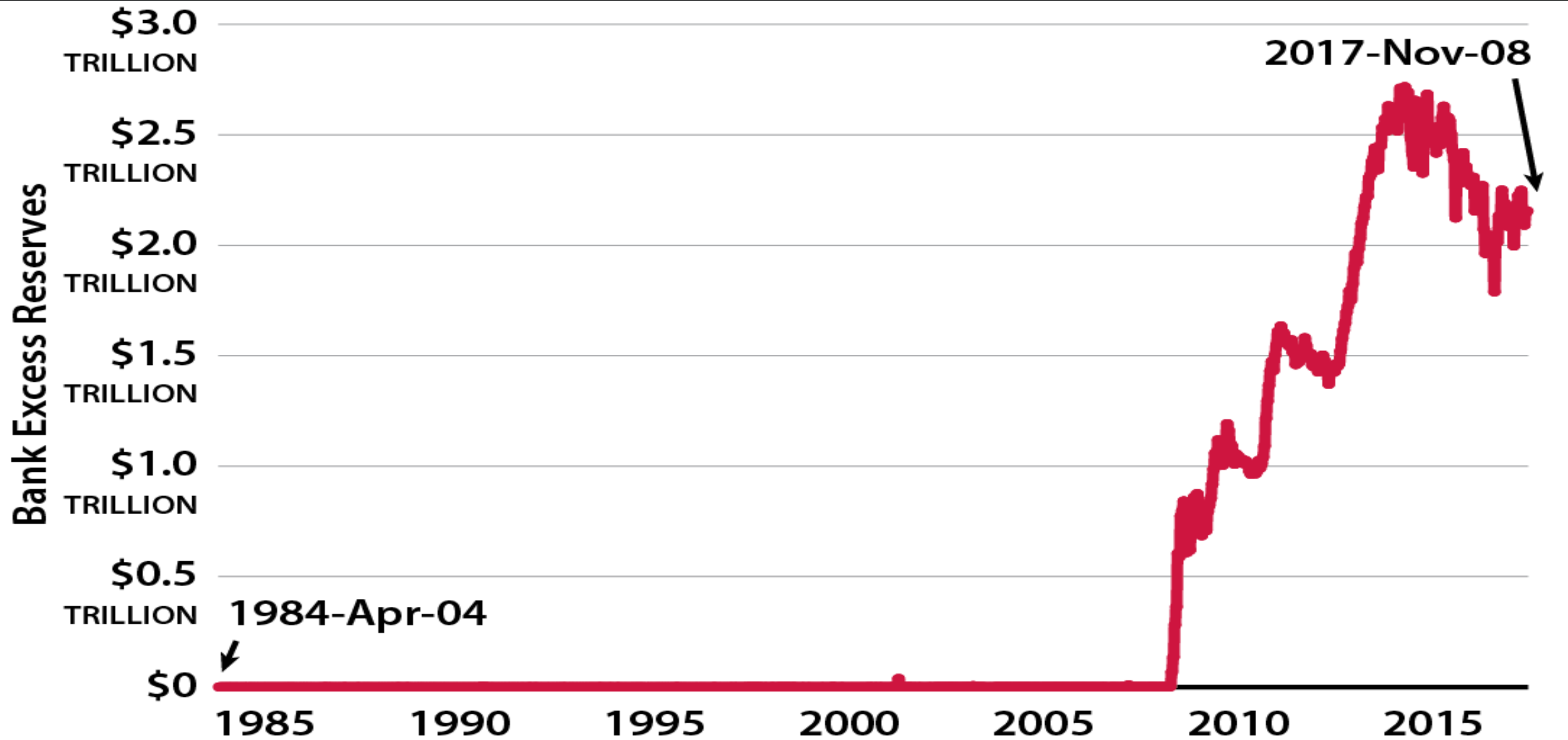
Michael J. Hicks

Director of the Center for Business &
Economic Research

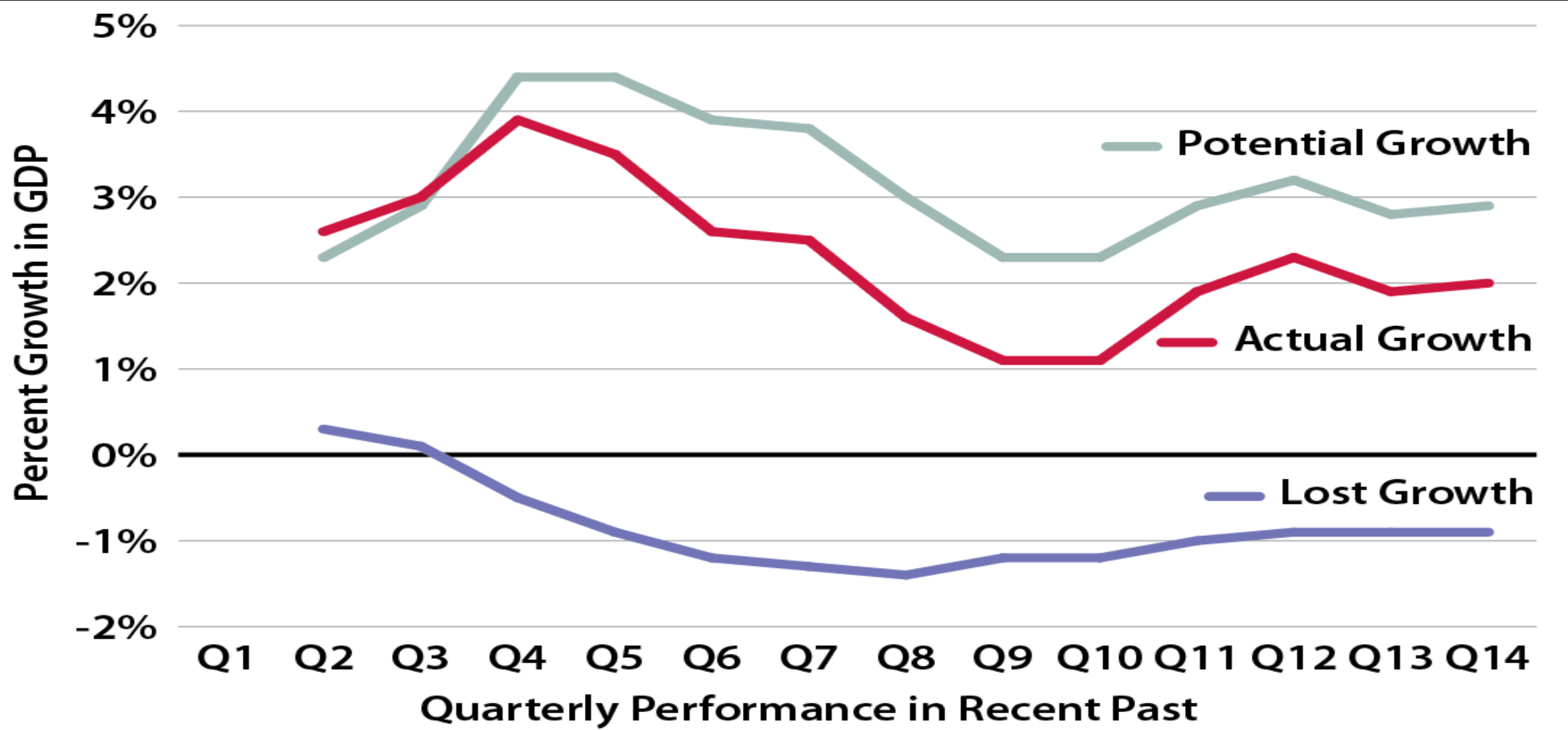
Ball Distinguished Professor of Economics,
Miller College of Business



Excess Reserves in US Banking, 1984-2017



Excess Reserves – Actual & Potential GDP Growth in Recent Quarters



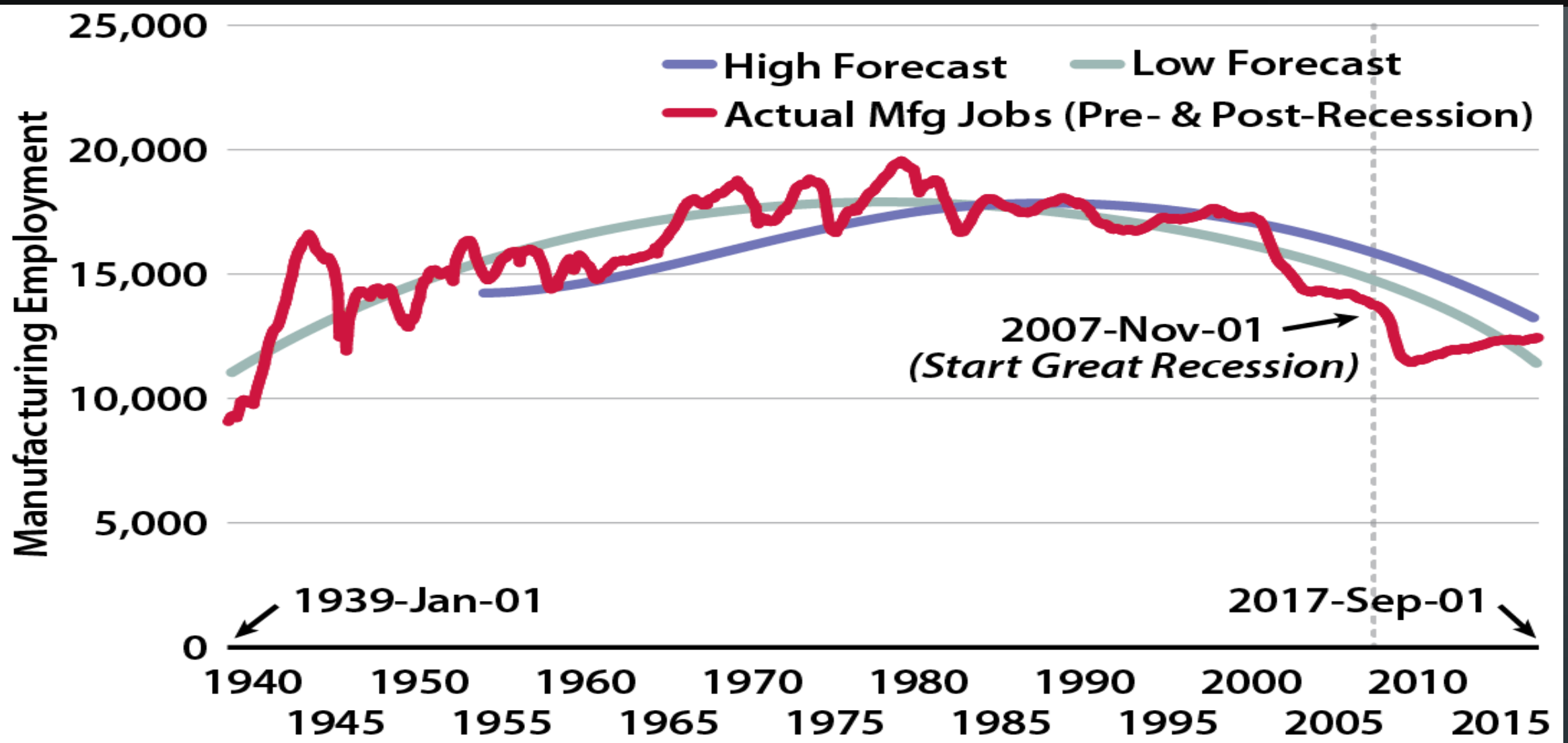
GDP Growth in the USA & Midwestern States

2017-2022

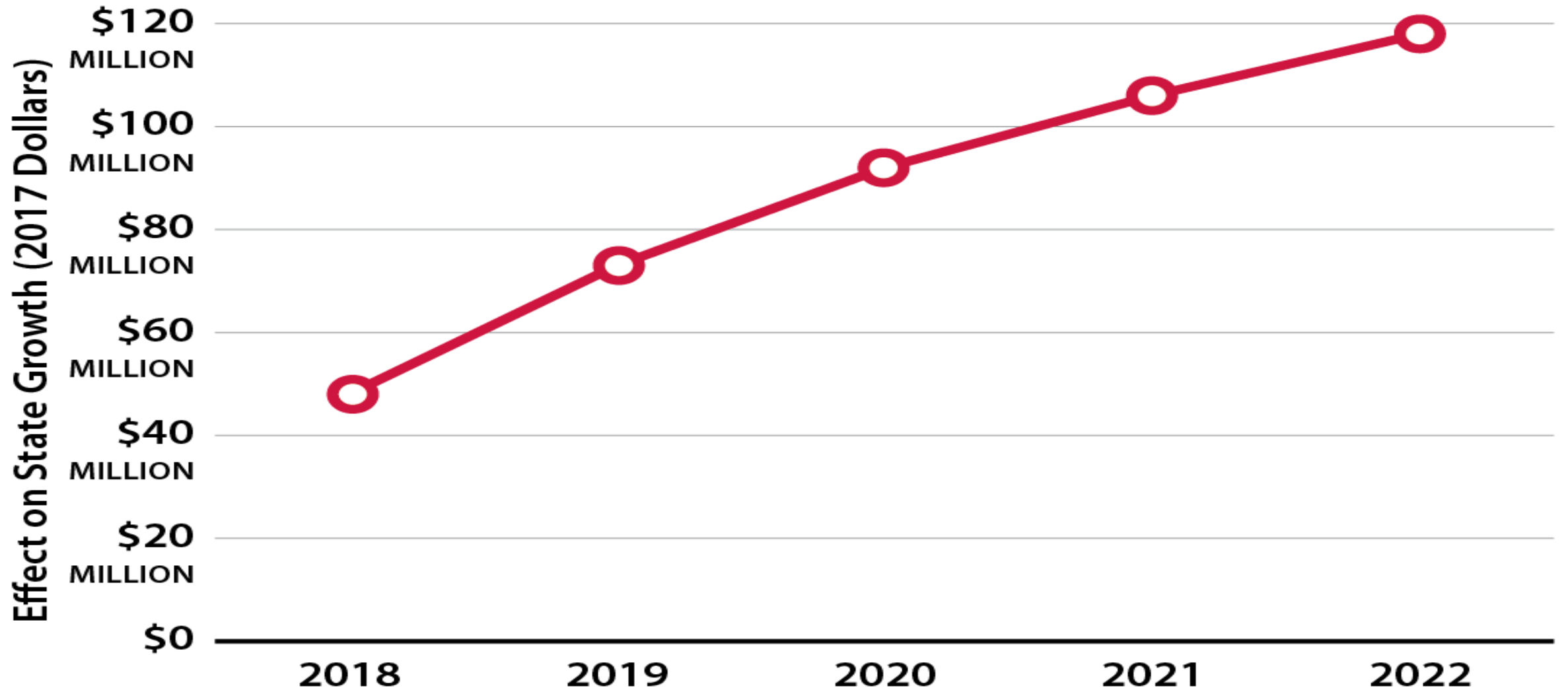
	2017	2018	2019	2020	2021	2022
USA	2.5%	2.2%	1.8%	1.8%	2.0%	2.1%
Illinois	0.6%	0.8%	1.0%	0.6%	0.4%	0.1%
Indiana	2.3%	2.1%	1.8%	1.8%	1.9%	2.0%
Michigan	2.0%	1.6%	1.1%	1.1%	1.4%	1.6%
Ohio	1.6%	2.0%	1.0%	2.0%	1.8%	2.5%
Wisconsin	2.1%	1.9%	1.7%	1.7%	1.8%	1.9%

Manufacturing Employment Return to Trend

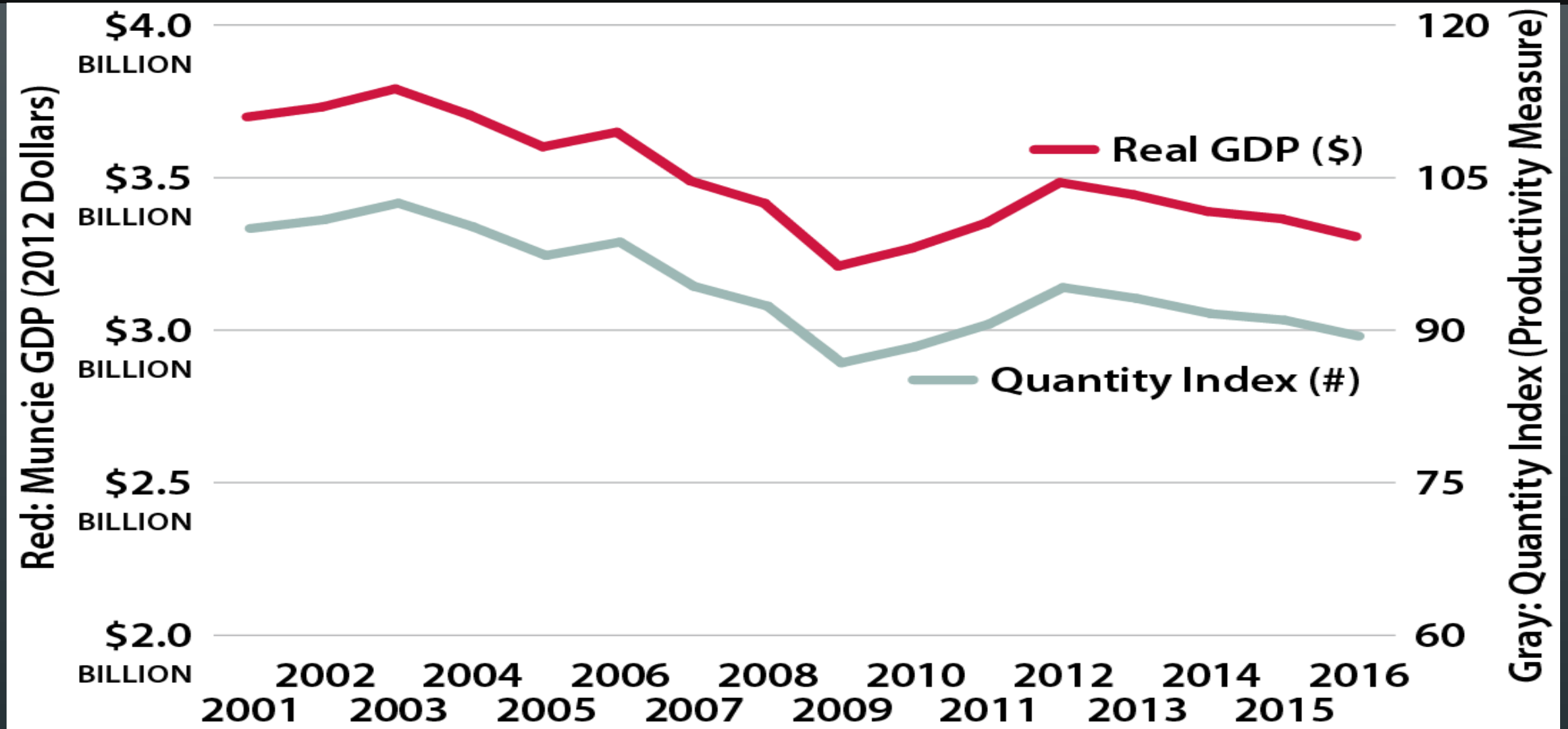
1939-2017



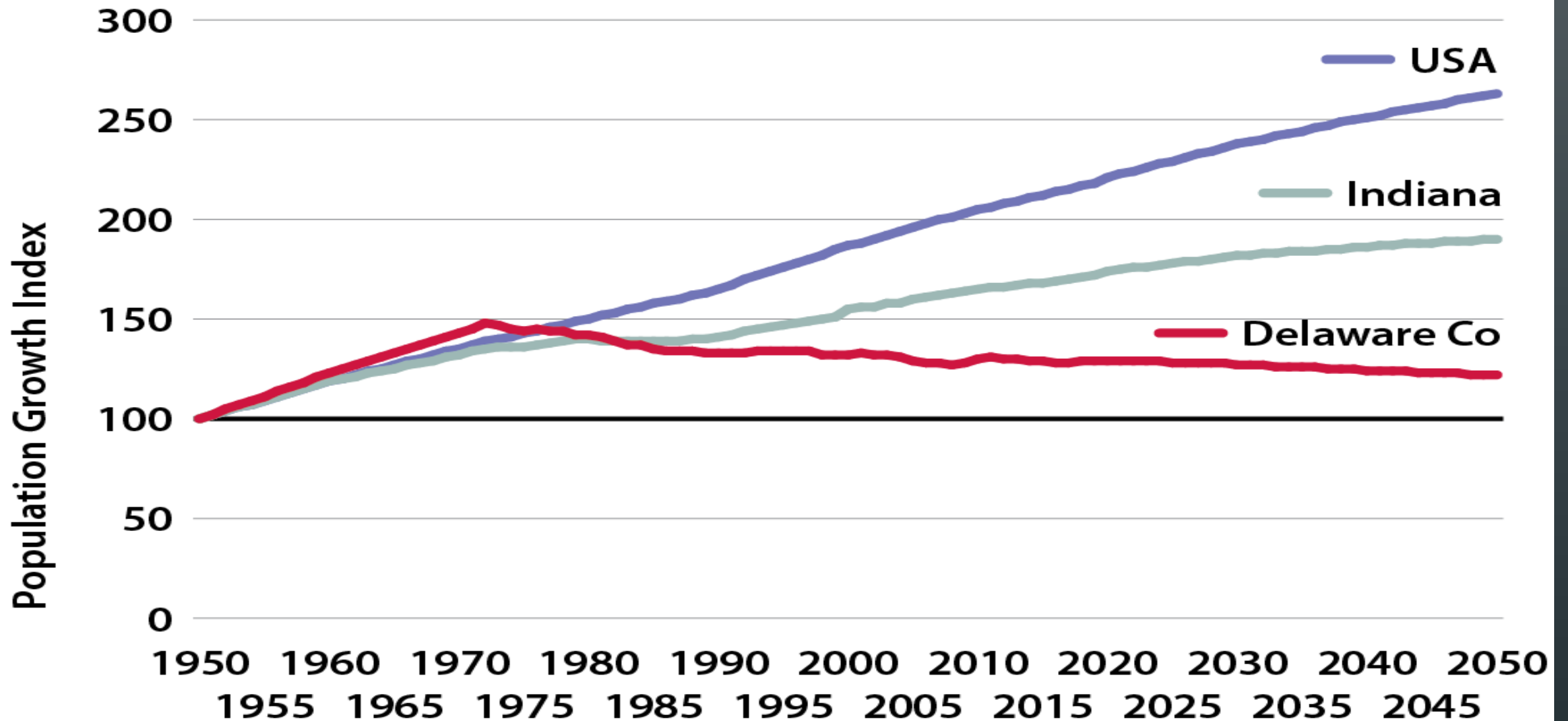
Estimated Effects of a Corporate Tax Cut on Indiana GDP 2018-2022



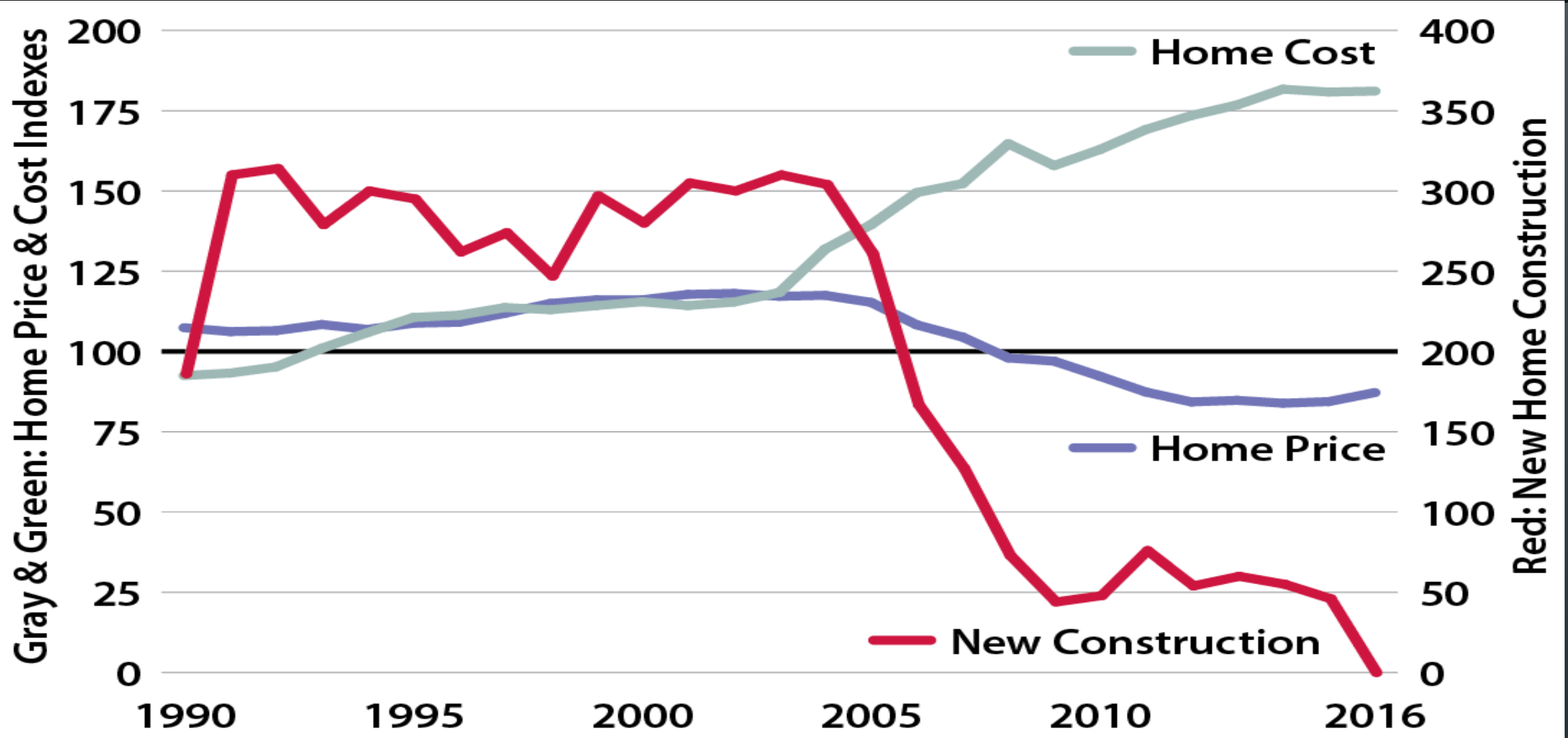
Muncie GDP Growth Using Real & Quantity Index Estimates 2001-2016



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 background of the slide features a large, faint, golden-yellow seal of the state of Indiana. The seal is circular and contains a central torch, a banner with the word 'INDIANA', and a constellation of stars. The seal is positioned behind the main text, which is white and centered. The left side of the slide has a solid dark blue vertical band.

THE ROLE OF GOVERNMENT INTEGRITY IN THE LOCAL ECONOMY

Lori A. Torres,
Inspector
General



STATE

EXECUTIVE

05-03

EXECUTIVE ORDER

FOR: CREATION OF THE OFFICE

TO ALL WHOM THESE PRESENTS MAY COME

WHEREAS, Hoosiers deserve to know the truth about the state's financial condition because of gifts, political contributions, and other improper influences;

WHEREAS, it is imperative that clear ethical guidelines be established so that state employees meet the high standards of conduct;

WHEREAS, the federal government and the

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

MISSION

MISSION

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.

Prof. Michael Hicks, Ball State University
May 2017. Photo by
<https://apgovernmentmidterm.wikispaces.com/Federalism-+Sidlauskas>

WHAT



What

Impact

Why

Public Response

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

Image by Pixabay.com

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

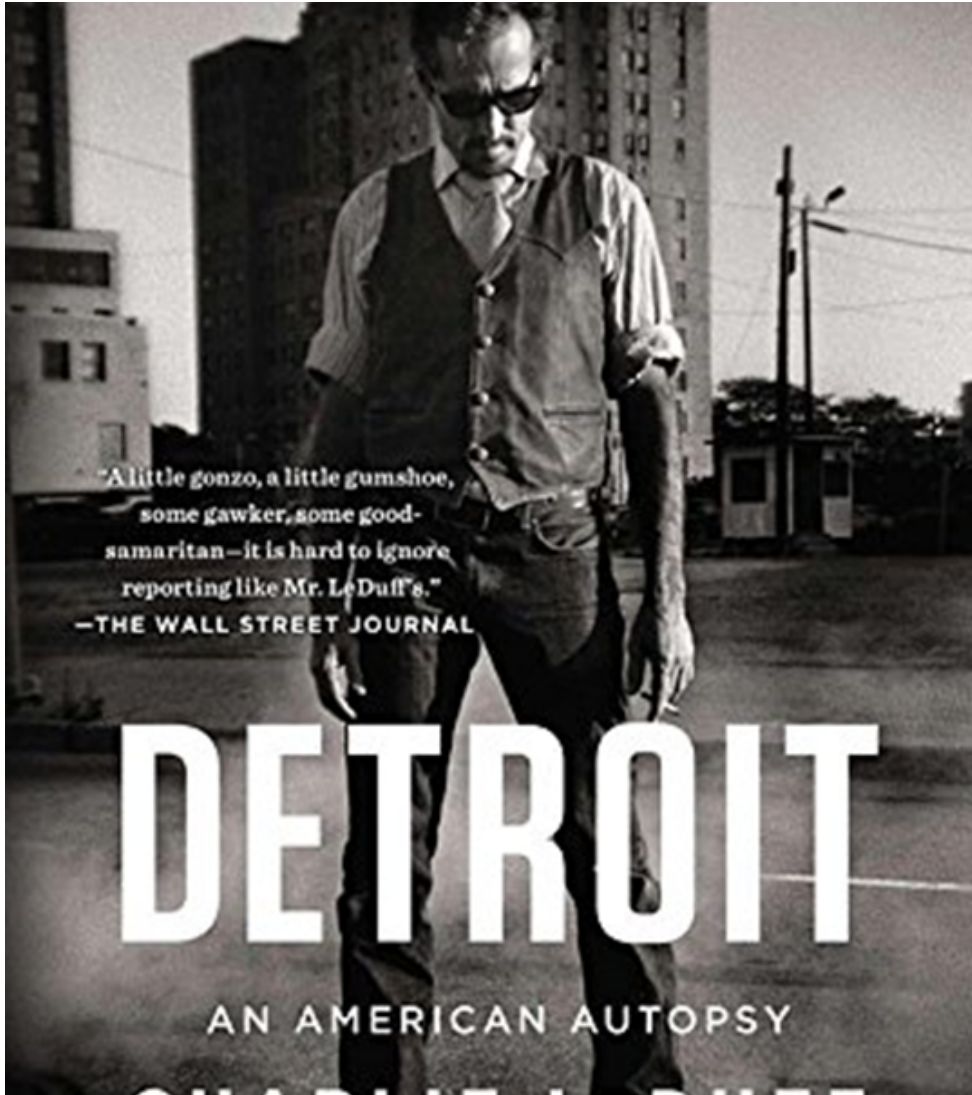
Private purpose debt is more susceptible to public corruption

Impacts of Corruption on a Community's Economic Vitality

Misuse of public office for private gain

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





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

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 back log
- 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.

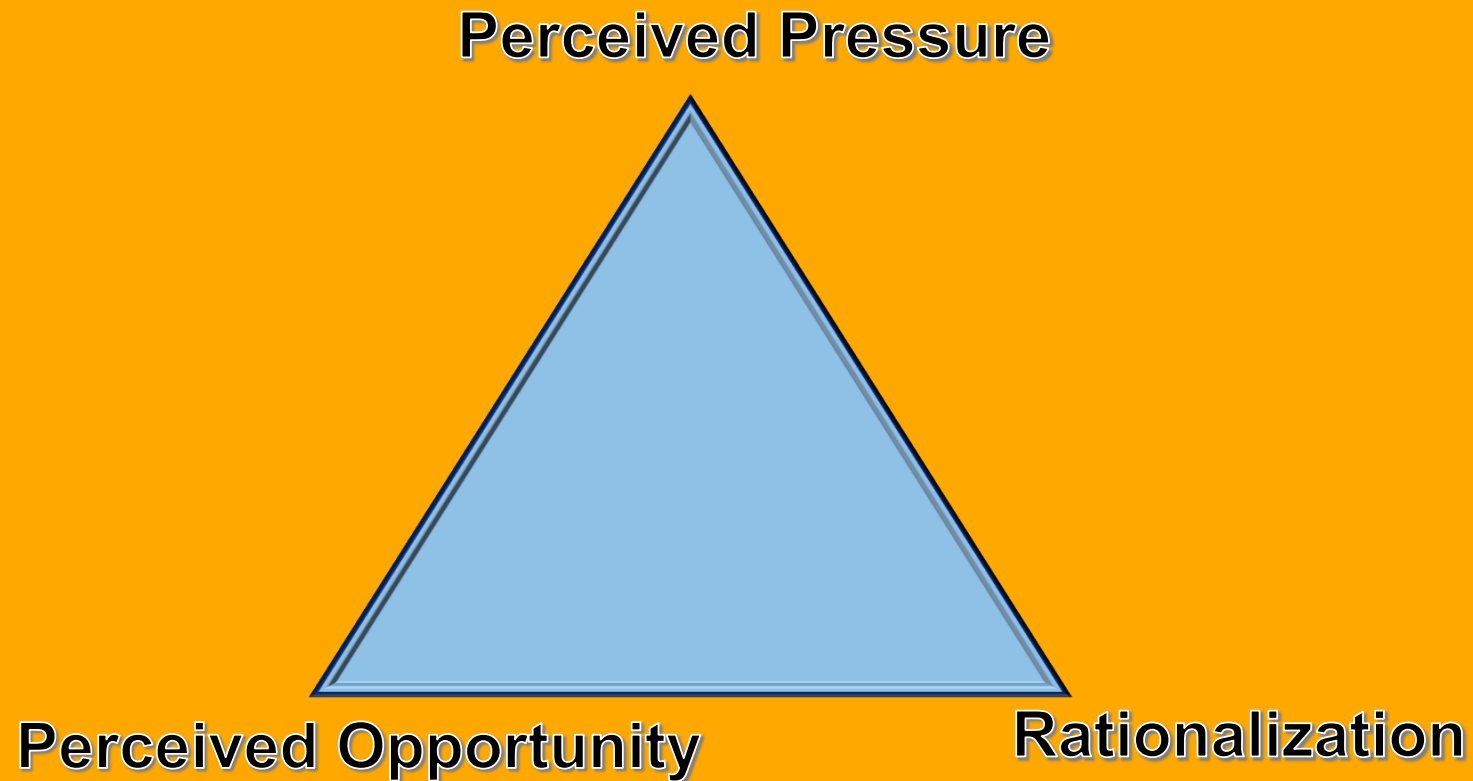


Common Rationalizations

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



Donald R. Cressey, Indiana University Graduate Student and famed Professor and Pioneer Fraud Expert

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?

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
- Photographs by Startup Stock Photos, FreeFoto.com, Wikispaces.com, Wikipedia, Pixabay.com, Penguin Press and by Lori Torres.

A blue-tinted background image of the Indiana State Capitol building, featuring a large central dome and classical architectural details.

Lori A. Torres Indiana Inspector General

Thank you

Question & Answer Session



Thank you to our table sponsors:

MutualBank | Ontario Corporation | STAR Financial | Whiting & Co.

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

