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## DEHAVEN: The governor's 'press release' economics

By TAD DEHAVEN

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>>SOUTHERN INDIANA — A stint as an Indiana budget official gave me a first-hand view of how policymakers use taxpayer money to serve their political self-interests. So when an Indianapolis news channel discovered that the state's economic development agency was taking undeserved credit for job creation, I was probably the least surprised person in the state.

If there is one issue that resonates with voters today it is jobs. As government at all levels grows in size and scope, voters become conditioned to look to policymakers as the source of economic development. And because simply cutting taxes means less money for politicians to spend on vote-buying programs, targeted subsidies to businesses have become popular. They buy favorable press at a cheaper price.

Indiana is no exception. The Indiana Economic Development Corporation (IEDC) uses subsidies in an attempt to lure businesses and jobs to the state, or to keep them here. The IEDC might not admit it, but most businesses already know where they are going to locate before they contact the agency. Businesses consider a myriad of factors including demographics, transportation logistics and workforce capabilities when choosing where to set up shop. Although the tax and regulatory climate is an important consideration, IEDC handouts are just that — handouts.

Because a governor will get credit for creating jobs, businesses know they can extract taxpayer money from the state for these subsidies. After a company reaches an agreement with the IEDC, the administration issues a press release. For the high-profile deals, it arranges a choreographed ribbon-cutting ceremony at the company's facilities. The company helps fulfill its end of the bargain by telling the press that the administration's support sealed the deal. Witnessing this charade from inside the administration of Gov. Mitch Daniels led me to coin the phrase, "press-release economics."

Not everyone in the administration, however, bought into the IEDC scheme. My former agency, the Office of Management and Budget (OMB), was tasked with monitoring the performance of state agencies, including the IEDC. And as we knew to be the case with many of the state programs, the IEDC's claims were known to be inflated. It is implausible that the rest of the administration, including the IEDC itself, didn't know about the fuzzy math.

The administration's political chicanery, however, has now come back to bite it. A recent WTHR Eyewitness News investigation into IEDC shined a light on the job-creation claims. When reporters tried to visit some of the companies celebrated in IEDC press releases, they found empty fields,

vacant lots and deserted factories. According to the investigation, “as many as 40 percent of statewide jobs listed as so-called economic successes have not happened – and most of them never will.”

The governor told reporters that the IEDC's numbers were audited. Independently? That would be news to me. When I was a deputy director at OMB, the governor's chief advisers ignored internal suggestions that the state pursue the creation of an independent auditing agency along the lines of the U.S. Government Accountability Office. The position of the IEDC director is that no taxpayer money is being lost because his agency audits the companies to make sure they fulfill the terms of their agreement with the state. The director, however, has so far refused to release any details to the public that would support this contention.

In summary, Indiana doesn't need a politicized economic-development bureaucracy to create a welcoming environment for businesses. One alternative would be to eliminate the state's corporate income tax, which has a relatively high 8.5 percent rate. The revenue loss could be offset at least in part by shuttering the IEDC and eliminating targeted tax breaks.

The governor, of course, might have to forgo some press releases. The long-term benefits to the state, though, should be worth the political sacrifice.

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