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Higher Gas Tax in HB 1002 Would Erode Indiana's Family Prosperity Index Score

Testimony of J. Scott Moody
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Senator Hershman, Representative Soliday and members of the Joint Committee, thank you for the opportunity to testify this morning on HB 1002. My name is Scott Moody and I am the co-director of the Family Prosperity Initiative which is a project of the American Conservative Union Foundation. I am also the creator of the Tax Foundations' State Business Tax Climate Index which is now in its 15th year of publication.

The core of the Initiative is the Family Prosperity Index which is being handed out to you. My apologies for not having enough copies as I was limited by the weight of my check-in bag. The full study can be found online at www.familyprosperity.org.

The purpose of the Family Prosperity Index is to show how families affect the economy and how the economy affects families.

The FPI is the most comprehensive index of its kind that ranks the states based on credible government data arranged in 6 major indexes—*Economics*, *Demographics*, *Family Self-Sufficiency*, *Family Structure*, *Family Culture*, and *Family Health*. The six major indexes are built up from 30 sub-indexes, 60 variables, and 120 measures.

In the newly released *2017 Family Prosperity Index (FPI)*, Indiana had the 31st best score (4.82) in the country which is a slight increase of 0.4 percent over the 2012 FPI score (4.80).

To be sure, investing in Indiana's infrastructure is a laudable goal. Unfortunately, the proposed increase in the gas tax in HB 1002 would seriously hurt Indiana's families, especially those of moderate- or low-income. In turn, this will negatively impact Indiana's score in the Family Prosperity Index in the following ways.

First, a higher gas tax would negatively impact the FPI's *Government Burden* sub-index which is contained within the *Family*

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Self-Sufficiency major index. Currently, Indiana has the 8th best score in the country.

The *Government Burden* sub-index takes into account both tax burdens and spending.

Higher gas taxes will result in a higher state and local tax burden, as a percent of private sector share of personal income. Based on the first year's estimated tax increase of $347.9 million, Indiana's tax burden would increase 1.3 percent (to 13.2 percent from 13 percent).

Higher gas taxes will also result in a higher level of state and local spending, as a percent of private sector share of personal income. Again, based on the first year's estimated tax increase of $347.9 million, Indiana's spending burden would increase 0.6 percent (to 28.8 percent from 28.6 percent).

Consequently, Indiana's *Government Burden* score would fall 1.5 percent (to 5.92 from 6.00) and its rank would fall 2 spots to 10th best (from 8th best). Years of fiscal responsibility that earned Indiana a well-deserved top 10 rank would be put into reverse.

Second, a higher gas tax would negatively impact FPI's *Cost-of-Living* sub-index score which is contained within the *Economics* major index. Currently, Indiana has the 15th best score and has a cost-of-living well below the national average. This is an important competitive advantage for businesses when it comes to recruiting out-of-state workers.

However, a higher gas tax will raise Indiana's cost-of-living because this government data is tax inclusive of excise taxes. In other words, as businesses pass the higher gas tax onto consumers through higher prices at the pump, this will directly translate into a higher cost of living.

Third, gas taxes are highly regressive as they hit the budgets of lower-income families the hardest. According to the 2014 Consumer Expenditure Survey, "gasoline and motor oil" consumed 11.3 percent of "income before taxes" for consumers in the bottom quintile and 6.8 percent for consumers in the 2nd lowest quintile. In

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contrast, these expenditures only represent 2.2 percent of income for consumers in the top quintile.[1]

A major reason for these higher gas expenditures is because lower income families, on average, drive older cars. An older car is less fuel efficient because efficiency naturally declines as a vehicles ages and they lack the technological innovations of newer cars. Making matters worse, an older car also means higher maintenance bills compounding the transportation woes of lower income families.

Therefore, this highly regressive tax will only serve to exacerbate the challenges of low-income families working to climb their way out of poverty. For instance, in the *Families with Related Children Below Poverty* sub-index, which is contained within the *Family Structure* major index, Indiana currently ranks near average at 28th.

Thankfully, Indiana has been making progress in recent years with the percentage of these families below poverty falling -11.3 percent (to 17.2 percent of all families in 2015 from 19.4 percent in 2011). This progress puts the state back at the national average. Fewer children growing up in poverty pays economic dividends for the life of the child in higher earnings, lower crime, and better health to name a few.

However, higher gas taxes on these vulnerable families will, at best, slow further progress in the *Families with Related Children Below Poverty* sub-index, or, at worst, put it into reverse. This would also lead to a worsening of Indiana's scores in the *Medicaid* and *Welfare* subindexes where the state currently only ranks 32nd and 25th, respectively.

In conclusion, while the infrastructure improvements would be a boost to Indiana's economy, this must be weighed against long run negative impacts of higher gas taxes on Indiana's families which, according to the *Family Prosperity Index,* will outweigh the positives.

In the near future, we look forward to publishing a deeper FPI analysis in conjunction with our state partner, The Indiana Family Institute.

Thank you and I would be happy to take any questions.

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[1] https://www.bls.gov/opub/reports/consumer-expenditures/2014/home.htm

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J. Scott Moody has worked as a Public Policy Economist for over 18 years. He is the author, co-author and editor of 170 studies and books. He has testified before the House Ways and Means Committee of the U.S. Congress as well as various state legislatures. His work has appeared in Forbes, CNN Money, State Tax Notes, Portland Press Herald, New Hampshire's Union Leader, Hartford Courant, The Oklahoman, and Albuquerque Journal.

He was formerly the CEO and Chief Economist of the State Policy Network (SPN) affiliated think tank Maine Heritage Policy Center. He is the creator of the Family Prosperity Index housed at the American Conservative Union Foundation. Moody is a Senior Fellow at the American Conservative Union Foundation, Illinois Policy Institute and the Oklahoma Council of Public Affairs. He currently serves on the board and is co-founder of the Granite Institute, the SPN affiliated think tank in New Hampshire. He is the creator of the Family Prosperity Index housed at the American Conservative Union Foundation. Moody is a Senior Fellow at the American Conservative Union Foundation, Illinois Policy Institute and the Oklahoma Council of Public Affairs. His professional experience includes positions as Senior Economist at The Tax Foundation, and Senior Economist at The Heritage Foundation. Additionally, Scott was appointed to Maine's Consensus Economic Forecasting Commission by Governor Paul LePage (R) in January 2011.

Moody is the co-creator of the Tax Foundation's popular State Business Tax Climate Index, now in its fourteenth year of publication.

Moody received his Master of Arts in Economics from George Mason University

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