



## Economic Freedom in Iowa

By Laura P. Keith

The National Center for Policy Analysis just released its 2005 Economic Freedom report on North America, an analysis that includes American states and Canadian provinces. The report focuses on variables in three areas: size of government, takings and discriminatory taxation, and labor market freedom.<sup>1</sup> These factors are effective in three ways: Bigger government equals less market control, more taxation equals a diminished amount of capital available to foster growth, and restrictions on labor markets hinder creation of the best conditions for both worker and employer, including pay. Simply put, these combined factors affect the level of economic freedom in a state, and thus its ability to prosper.

Iowa ranks 23<sup>rd</sup> out of 50 states on the 2005 Economic Freedom report, placing two spots higher than last year's ranking of 25<sup>th</sup>. Our regional competitors rank above Iowa with the exception of Minnesota. Only South Dakota breaks the top ten, coming in at number eight. According to the index, Iowa showed improvement in freeing up its labor to work better with today's more mobile labor market, especially when compared on a scale that includes Canadian provinces. Nationally, Iowa was stable in the size and taxation areas, but those rankings kept us out of the top tier for economic freedom.

The obvious steps to more economic freedom in Iowa, which leads to higher economic growth, include cutting taxes, using tax revenue efficiently, and shrinking government. Outside of cleaning house, so to speak, there is another interesting opportunity. The agricultural sector of Iowa's economy is just as important as the labor sector that receives particular attention in this report. Because the agriculture sector is affected by taxes and government regulation, freeing this sector from regulations and its dependence on subsidies is akin to creating a more flexible labor force not dependent on welfare. One option is to focus on free trade with Central America and the Dominican Republic.

With national attention on the Congressional battle to sign the Central American Free Trade Agreement (CAFTA), the economic freedom report comes at a crucial time. It shows that economic freedom, the catalyst for prosperity in a nation, is not limited to entire regions or individual nations. Cities and states play out similar battles in smaller issues that employ weapons from both sides, ranging from taxation and regulation on one side to freedom and choice on the other. CAFTA not only works with large manufacturers, but small businesses and farmers, the backbone of Iowa's economy. The main push of CAFTA is to reduce or eliminate tariffs on trade between the US and Central American states. The National Taxpayers Union says it best: "Since tariffs are nothing more than taxes on consumers, reducing these levies as the agreement stipulates will lead to even more trade between regions, faster economic growth, and higher standards of living both at home and in the six CAFTA nations."<sup>2</sup>

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Efforts to increase Iowa's international trade base are in line with other states in the nation. A study done on international legislation by State Legislatures from 2001 to 2002 showed that 25 percent of all bills passed concerned with international affairs were about trade, which only followed behind anti-terrorism bills in the year of the September 11 attacks.<sup>3</sup> The trend shows up in places other than legislation. For example, the Governor and officials from the Iowa Department of Economic Development visited China in May 2005 to "seek new investments, promote export expansion between Iowa and China," and build relations.<sup>4</sup>

While expanding ties to China is important to grasp a foothold in its growing markets, CAFTA ensures that its member countries will comply with the labor standards of the International Labor Organization.<sup>5</sup> It will also enable its nations to "maintain and raise their domestic standards," including environmental and social concerns.<sup>6</sup> These facts dispute any claims made about the agreement as a "race to the bottom" for all countries involved.

The ratifying of CAFTA will assist U.S. economic growth, pulling Iowa along with it. Initiating similar free trade agreements among the states, such as cutting regulation that drains resources, cutting taxes, and giving other states leeway in the same way we are willing to do with foreign nations to spur more trade and growth, is an effective option to raising Iowa from a mediocre 23<sup>rd</sup> to a stellar 1<sup>st</sup> place in economic freedom among the states. Standing at the top of this list indicates an economic winner.

#### ENDNOTES:

<sup>1</sup> Amela, Karaboegovic, "Economic Freedom of North America: 2005 Annual Report," *National Center for Policy Analysis*, 2005.

<sup>2</sup> "What Taxpayers Need to Know About the Central American Free Trade Agreement," *National Taxpayers Union & National Taxpayers Union Foundation*, <<http://www.ntu.org/main/page.php?PageID=77>> (July 1, 2005).

<sup>3</sup> Timothy J. Conlan, Robert L. Dudley, and Joel F. Clark, "Taking on the World: The International Activities of American State Legislatures," *Publius: The Journal of Federalism*, Vol. 34, No. 3, p. 187.

<sup>4</sup> Press Release, "Governor Vilsack to lead trade mission to China," Office of Governor Thomas J. Vilsack and Lt. Governor Sally Pederson, May 20, 2005 <[http://www.governor.state.ia.us/news/2005/may/may2005\\_3.html](http://www.governor.state.ia.us/news/2005/may/may2005_3.html)> (July 1, 2005).

<sup>5</sup> Daniel Griswold and Daniel Ikenson, "The Case for CAFTA: Consolidating Central America's Freedom Revolution," *CATO Institute: Trade Briefing Paper*, No. 21, September 21, 2004, p. 11.

<sup>6</sup> Daniella Markheim, "Debunking Some Myths About DR-CAFTA," *The Heritage Foundation: Just the Facts*, No. 5, June 16, 2005, p. 2.

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