

Drop the Grow Iowa Government Values Fund

by David Hogberg

A recent *Des Moines Register* article reported that members of the Grow Iowa Values (GIV) Board fretted about the GIV Fund running out of money in two years.¹ At present the GIV Fund is relying on \$100 million in federal aid, which runs out after two years. If another source of funding does not materialize, the GIV Fund could become defunct.

But as the song goes, “Don’t Worry, Be Happy!” The GIV Fund was a bad idea from the get-go, and its demise would be very good for Iowa.

Grow Values or Grow Government?

As with all government programs, new bureaucracy was created to administer the GIV Fund. The legislation that created the GIV Fund established a GIV Board consisting of 15 members, 11 of whom have voting powers, 4 of whom are ex-officio members. The 11 voting members are appointed by the Governor for three-year, staggered terms. They must be confirmed by the State Senate. Their ultimate duty is to approve or deny any application for GIV Fund money. At least one member of the board must be from each of the five geographic regions in the state as delineated by the legislation. All of the following areas of expertise must be represented by at least one board member: finance and investment banking; advanced manufacturing; statewide agriculture; life science; small business development; information technology; economics; labor; marketing; and entrepreneurship. At least nine of the members must be employed in a private, for-profit firm. Board membership must be balanced between members from firms with less than

200 employees and firms with more than 200 employees.

However, it is not the GIV Board which does most of the analysis of the grant proposals. That is the responsibility of a “Due Diligence” (DD) Committee. The DD Committee consists of five members of the GIV Board who have expertise in banking and entrepreneurship. They determine whether a proposed project is “practical” and then make a recommendation to the GIV Board. Both of these Boards come under the auspices of the Department of Economic Development.

Another board was constructed to review the GIV Board. Called the “Review Commission,” it consists of a member appointed by the Governor and approved by the State Senate, a member approved by the Legislative Council, and the State Auditor. The purpose of the Review Commission is to review the annual reports that must be produced by the GIV Board. By January 1, 2007, the Review Commission must submit a report to the Department of Economic Development, the GIV Board, and the State Legislature, which includes statistical findings regarding the economic performance of GIV projects. “The report shall also include recommendations regarding the continuation, elimination, or modification of any programs receiving moneys from the Grow Iowa Values Fund and whether moneys should continue to be appropriated to and from the Grow Iowa Values Fund. The recommendations shall be based on whether the goals in accordance with the performance measures are being achieved.”²

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Finally, the GIV Fund creates a Marketing Board which consists of seven members appointed by the Governor and confirmed by the State Senate. The purpose of the Marketing Board is to vet proposals for marketing Iowa across the nation. It is supposed to look for proposals that promote Iowa's lifestyle, increase Iowa's population, increase the wealth of the state, expand the state economy, etc. It will then make a recommendation to the GIV Board which must approve the recommendation.

The thinking behind the Grow Iowa Values Fund appears to be the government can manage the economy. One would think that the collapse of socialism at the end of the 1980s would have put that idea to rest once and for all. But some silly notions die hard.

Economic Development Funds Don't Work

While economic development funds do grow government, they do little for the economy. As Public Interest Institute continually pointed out last year, the bulk of the academic evidence shows that such economic development programs have no significant impact on economic growth.³ The basic reason is simple: they take resources out of the private sector via taxes, and then turn around and give those resources back to the private sector. It is tantamount to the old cure of bleeding a sick patient to save him.

Although there isn't much research showing economic development spending works, this doesn't prevent the state of Iowa from producing "evidence" about all the economic benefits that the GIV Fund will supposedly produce. In October the *Des Moines Register* reported on a new statistical model developed by six Iowa economists for the GIV Fund board that purported to measure the economic benefits, such as increases in personal income and tax revenue, of the 2,472 new jobs that will supposedly be created by the GIV Fund.⁴ In what was a clear case of journalistic bias, the reporter only quoted the officials involved in the development of the model, and did not quote any critics of the GIV Fund. Thus, the public was left with the impression that the GIV Fund will definitely have the benefits that those involved in the GIV Fund say that it will. I suppose we are to assume that the GIV Fund members are just objective folk with no vested interest.

The main flaw in the statistical model is that it assumes that the companies receiving GIV Fund money will create 2,472 new jobs. But there is no guarantee, other than those companies' "promise" that those jobs will be created. Furthermore, the model does not control for what is often called the "displacement effect." That is, the jobs that already exist in established businesses in a given industry may be displaced by the new

business moving into that industry. The reason is that the increased competition from the new firm may reduce the revenues going to other firms already in the area. If that happens, then the other firms may experience job losses. If the job losses are great enough, there may be no net increase in total jobs. If there is no net increase in total jobs, then it is unlikely that there will be any net gain in personal income or tax revenue.

Despite what Iowans are receiving from a state media that is largely cheerleading for the GIV Fund, there is no guarantee that “2,472 new jobs” will be created.

GIV Money Runs Out, High Costs Remain

There is also no guarantee that the businesses will stay in Iowa when their GIV Fund grants run out. And why should they? Iowa has a substantial income and property tax burden that results in firms having to pay their employees more than in states that have much lower burdens. This makes other states look more attractive, such as the state on Iowa’s western border, South Dakota, that has no income tax.

Indeed, that is where Iowa-based Wells Dairy Co. — the makers of Blue Bunny ice cream — is thinking of moving its corporate headquarters. Located in Le Mars, Iowa, Wells Dairy Co. is contemplating where to locate a brand-new \$30 million corporate building. Mike Blouin, Director of the Iowa Department of Economic Development, claims that Iowa is pretty competitive because “Iowa’s corporate tax is pretty small, since we tax only profits made from sales in the state.”⁵ One wonders exactly how competitive that is given that South Dakota has no corporate income tax. One also wonders if the executives of the companies which have received GIV Fund grants — including Trans Ova, Wells Fargo and Co., and GCommerce — won’t eventually begin thinking like the executives of Wells Dairy Co. apparently are.

Corporate Welfare

Wells Dairy Co. is definitely adopting the thinking of the firms that have received grants for the GIV Fund. Blouin said that his staff was already working on a

development package for Wells Dairy Co., but also said that it was unclear if money for the project would come from the GIV Fund. It is also unclear whether the sun will come up tomorrow, but one wouldn’t be foolish for betting that it will. As David Yepsen noted in the *Des Moines Register*, “those northwest Iowans are . . . getting pretty good at squeezing the state for big economic-development grants, and [Wells Dairy Co.’s] threat to leave may just be designed to leverage another.”⁶

What this means is that in the future all a company will have to do is hint about leaving the state to reap a windfall of taxpayer money. There is a name for this, and it is called “extortion.” The taxpayers will then have to pony up tens of millions of dollars so that businesses will stay in Iowa. Unfortunately, the taxpayers will include those who are not employed in the firms getting the grants, but are employees in the businesses competing with the firms getting the grants. There is also a name for that, and it is called “corporate welfare.”

Indeed, businesses in Iowa are so eager to get their snouts in the trough that they are calling for new taxes. In what was the most surreal headline of 2003, the *Des Moines Register* ran a story titled “Business Leaders Want Taxes Raised for Economic Growth.”⁷ According to the article, Teresa Wahlert, President of the Greater Des Moines Partnership said, “It’s imperative that the Governor and the Legislature find a reliable way to maintain this long-term funding commitment to this program over the next seven years.” Given that higher taxes increase the cost of doing business, it’s quite remarkable that the state has managed to induce business leaders to call for tax increases. It’s just another sign that the state government has created a boondoggle in the GIV Fund.

Conclusion

The GIV Fund was a misguided policy from the beginning. Many conservative legislators bought into it because they were led to believe that Governor Tom Vilsack would go along with income-tax cuts and regulatory reform in exchange for the economic

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Iowa's Monthly State Revenue:

Iowa revenues at the halfway point for Fiscal Year 2004 are essentially unchanged over FY 2003. It may be another year before Iowa state government sees significant improvement in its revenue stream.

Iowa's Estimated Net Yearly Revenue:

As predicted here in October, the Revenue Estimating Conference decreased its estimate of FY 2004 revenues after the appearance of a shortfall in the FY 2003 budget. As a result of the revised estimate, the state found itself with an \$82 million shortfall for FY 2004.

Source: Iowa Legislative Fiscal Bureau, "Monthly Revenue Memo."

Iowa's Unemployment:

The employment situation in Iowa is mixed. At first glance the drop in the unemployment rate in Iowa from 4.5% in October to 4.2% in November is encouraging. However, the drop is due more to a decline in the total labor force, not an increase in the number of jobs in the state. This suggests that some people have given up looking for work. There are a few hints of good news. Manufacturing was up slightly in November, as was total non-farm employment. Overall, Iowa has yet to see the improvement in employment that the nation as a whole has seen.

Source: Iowa Workforce Development, Labor Market Information Bureau, "Labor Force Data."

Consumer Confidence Index:

Although consumer confidence in the nation declined slightly in December, it is still better than it has been at anytime in the last twelve months previous to November 2003. According to the Conference Board, the drop in December is a by-product of the lackluster labor market. As the employment situation continues to improve, consumer confidence should rebound. In Iowa's region, consumer confidence took a small jump in December from 88.1 to 93.

Source: Conference Board, "Consumer Confidence Survey."

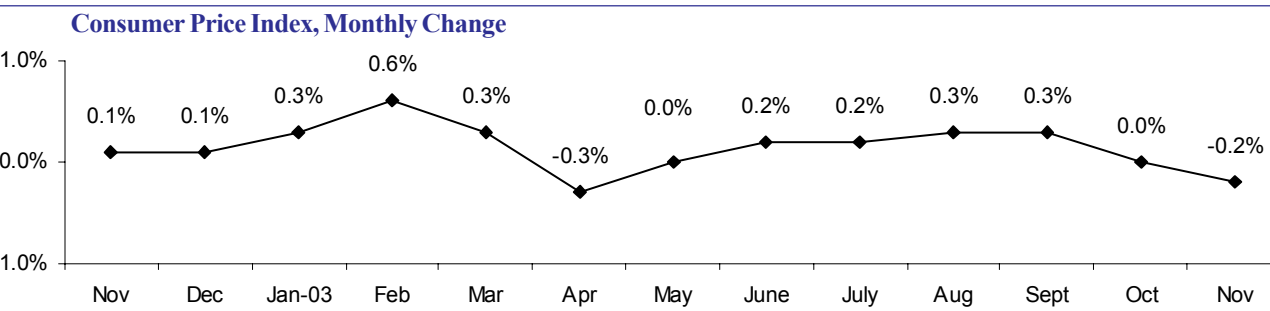
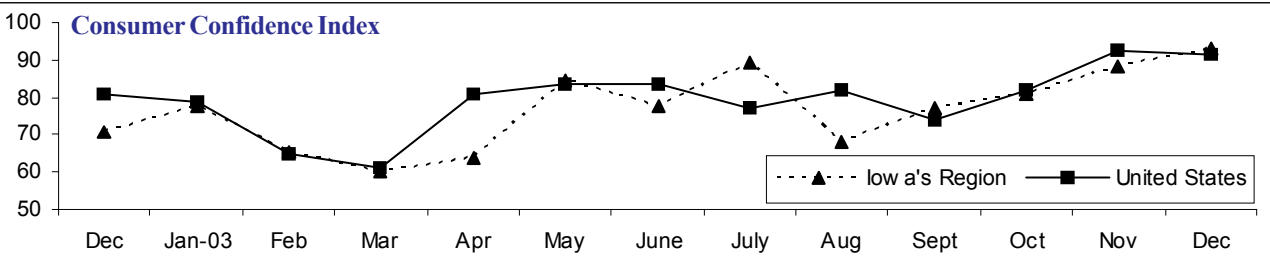
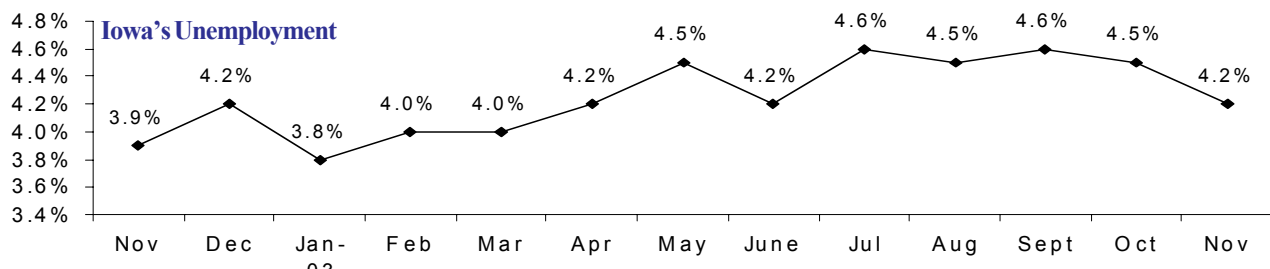
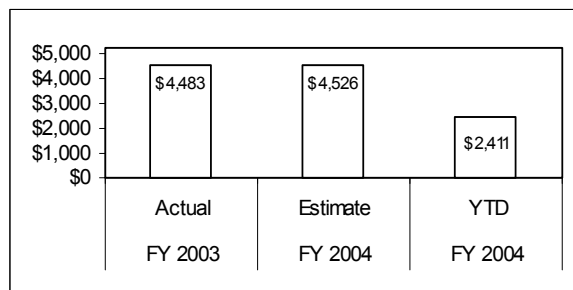
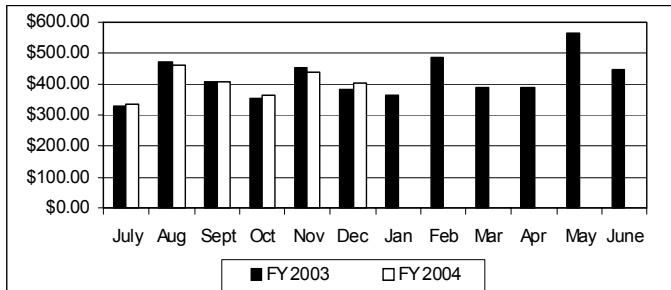
Consumer Price Index, Monthly Change:

Editor's Note: In this edition of Iowa Economic Scorecard, we are switching from the Consumer Price Index, Annual Rate to the Consumer Price Index, Monthly Change. This was done because the Monthly Change is what is widely reported in the media. In November 2003 the CPI dropped -.2% after remaining unchanged in October. The decline reflects a -3% drop in energy prices and a -.1% drop in all other items except food. Further drops in the CPI are likely to restart concerns over deflation.

Source: U.S. Department of Labor, Bureau of Labor Statistics

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Iowa's Monthly State Revenue and Estimated Net Yearly Revenue



**REVENUE ESTIMATING CONFERENCE
ESTIMATE OF GENERAL FUND RECEIPTS**

Historical Figures

	FY 99 <u>ACTUAL</u>	FY 00 <u>ACTUAL</u>	FY 01 <u>ACTUAL</u>	FY 02 <u>ACTUAL</u>	FY 03 <u>ACTUAL</u>	% Change FY 03 Act vs. FY 02 Act
TAX RECEIPTS						
Personal Inc. Tax	2,233.7	2,375.9	2,426.6	2,372.1	2,417.6	1.9%
Sales Tax	1,377.5	1,416.6	1,441.7	1,453.0	1,450.4	-0.2%
Use Tax	242.7	246.8	249.4	238.5	254.2	6.6%
Corporate Income Tax	321.8	326.1	284.8	221.2	237.0	7.1%
Inheritance Tax	90.1	114.8	104.6	100.3	88.1	-12.2%
Insurance Premium Tax	114.3	120.2	126.6	135.4	142.2	5.0%
Cigarette Tax	92.3	91.1	89.6	88.0	88.1	0.1%
Tobacco Tax	6.5	6.6	6.7	7.1	7.4	4.2%
Beer Tax	13.1	13.6	13.6	13.8	14.0	1.4%
Franchise Tax	33.8	31.8	31.2	30.9	35.3	14.2%
Miscellaneous Tax	1.1	1.3	1.3	1.5	1.1	-26.7%
Total Tax Receipts	4,526.9	4,744.8	4,776.1	4,661.8	4,735.4	1.6%
OTHER RECEIPTS						
Institutional Payments	49.7	49.7	47.2	48.6	16.2	-66.7%
Liquor Profits	41.3	45.0	46.5	47.5	49.0	3.2%
Interest	34.1	26.0	18.2	25.3	18.1	-28.5%
Fees	58.3	66.3	72.5	70.2	72.2	2.8%
Judicial Revenue	48.3	52.3	48.8	51.9	54.7	5.4%
Miscellaneous Receipts	61.3	52.7	45.2	42.2	41.3	-2.1%
Racing & Gaming	60.0	60.0	60.0	60.0	60.0	0.0%
Total Other Receipts	353.0	352.0	338.4	345.7	311.5	-9.9%
Total Tax & Other Receipts	4,879.0	5,096.8	5,114.5	5,007.5	5,046.5	0.8%
Transfers						
Lottery	35.3	37.1	34.3	40.0	38.9	-2.8%
Other Transfers*	3.5	4.5	74.2	265.8	90.0	-66.1%
Total Transfers	38.8	41.6	108.5	305.8	128.9	-57.8%
Total Receipts and Transfers	4,918.7	5,138.4	5,223.0	5,313.3	5,175.8	-2.6%
Accruals (net)	(10.2)	49.4	(25.3)	31.7	(44.9)	-241.6%
Refunds	(510.6)	(520.2)	(550.7)	(663.1)	(647.3)	-2.4%
Net Receipts	4,397.9	4,667.6	4,647.0	4,681.9	4,483.6	-4.2%

Source: Iowa Department of Management, Revenue Estimating Conference

**REVENUE ESTIMATING CONFERENCE
ESTIMATE OF GENERAL FUND RECEIPTS**

Estimates as of October 10, 2003

Estimates as of December 8, 2003

10/10 REC FY 04 <u>ESTIMATE</u>	% Change FY 04 Est vs. FY 03 Actual
2,489.0	3.0%
1,450.3	0.0%
254.2	0.0%
222.1	-6.3%
73.1	-17.0%
130.0	-8.6%
88.1	0.0%
7.0	-5.4%
14.3	2.1%
35.2	-0.3%
1.5	36.4%
4,764.8	0.6%
14.9	-8.0%
51.0	4.1%
12.0	-33.7%
66.7	-7.6%
57.3	4.8%
81.2	96.6%
60.0	0.0%
343.1	10.1%
5,107.9	1.2%
43.7	12.3%
44.3	-50.8%
88.0	-31.7%
5,195.9	0.4%
21.6	-148.1%
(720.0)	11.2%
4,497.5	0.3%

12/08 REC FY 04 <u>ESTIMATE</u>	% Change FY 04 Est vs. FY 03 Actual	12/08 REC FY 05 <u>ESTIMATE</u>	% Change FY 05 Est vs. FY 04 Estimate
2,527.2	4.5%	2,620.0	3.7%
1,450.4	0.0%	1,508.9	4.0%
252.9	-0.5%	258.5	2.2%
180.1	-24.0%	185.1	2.8%
76.7	-12.9%	72.0	-6.1%
130.0	-8.6%	106.5	-18.1%
86.3	-2.0%	84.1	-2.5%
7.5	1.4%	7.7	2.7%
14.0	0.0%	14.0	0.0%
39.2	11.0%	40.8	4.1%
1.5	36.4%	1.5	0.0%
4,765.8	0.6%	4,899.1	2.8%
14.6	-9.9%	14.6	0.0%
51.0	4.1	51.0	0.0%
12.0	-33.7%	6.4	-46.7%
66.2	-8.3%	64.7	-2.3%
57.3	4.8%	57.3	0.0%
80.1	93.9%	36.8	-54.1%
60.0	0.0%	60.0	0.0%
341.2	9.5%	290.8	-14.8%
5,107.0	1.2%	5,189.9	1.6%
43.7	12.3%	55.4	26.8%
44.3	-50.8%	11.8	-73.4%
88.0	-31.7%	67.2	-23.6%
5,195.0	0.4%	5,257.1	1.2%
23.6	-152.6%	5.4	-77.1%
-736.0	13.7%	-712.2	-3.2%
4,482.6	0.0%	4,550.3	1.5%

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development fund. However, Governor Vilack balked on the deal when he item-vetoed the tax cut and regulatory provisions of the economic development fund. Now, legislators no longer have any incentive to make deals with the Governor.

As a result, the State Legislature may not (and should not) fund the GIV Fund beyond the first two years. And that would be one of the best things that could happen to Iowa.

ENDNOTES:

¹Donnelle Eller, "Iowa Fund Board Faces Unreliable Financial Future," *Des Moines Register*, September 30, 2003, <<http://desmoinesregister.com/business/stories/c4789010/22380248.html>> (December 1, 2003).

²House File 692, <<http://coolice.legis.state.ia.us/Cool-CEdefault.asp?Category=Matt&Service=Billbook&frame=1&hbill=HF692%20%20%20%20%20%20%20&cham=House>>.

³See Institute Briefs "Markets, Not Government, Should Determine Economic Winners," 9-33, November 2002; "Iowa Values Fund Will Not Grow the Economy," 10-9, March 2003; and "More State

Debt Won't Grow Iowa's Economy," 10-12, April 2003. Also see Fact Sheets "State Economic Development: A Review of the Literature," and "Economic Development Bibliography," May 2003. All are available at PII's website.

⁴Donnelle Eller, "Investing Will Bring \$1.5 Billion to State, Study Says," *Des Moines Register*, October 22, 2003, <<http://www.dmregister.com/business/stories/c4789010/22561520.html>> (December 1, 2003).

⁵Donnelle Eller, "Blue Bunny Maker May Move Headquarters out of Le Mars," *Des Moines Register*, November 5, 2003, pp. 1A and 4A, col. 1.

⁶David Yepsen, "Not in the Mood to Lose the Bunny to S.D.," *Des Moines Register*, November 6, 2003, p. 15A, col. 3.

⁷Lynn Okamoto, "Business Leaders Want Taxes Raised for Economic Growth," *Des Moines Register*, November 13, 2003, <<http://desmoinesregister.com/news/stories/c4780934/22748898.html>> (November 13, 2003).