PUBLIC INTEREST INSTITUTE

IOWA ECONOMIC SCORECARD

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The United States Economic Freedom Ranking 2012

By The Heritage Foundation and *The Wall Street Journal*

For over a decade, *The Wall Street Journal* and The Heritage Foundation have tracked the march of economic freedom around the world with the influential *Index of Economic Freedom*. Economist Adam Smith formed this theory in his influential work, *The Wealth of Nations*, in 1776. In 2012, his theory is measured – and proven – in the *Index of Economic Freedom*, an annual guide published by *The Wall Street Journal* and The Heritage Foundation, Washington's No. 1 think tank.

Since 1995, the *Index* has brought Smith's theories about liberty, prosperity, and economic freedom to life by creating ten benchmarks that gauge the economic success of countries around the world. The *Index of Economic Freedom* allows us to see how 18th century theories on prosperity and economic freedom are realities in the 21st century. The *Index* covers 10 freedoms – from property rights to entrepreneurship.

The *Index* evaluates countries in four broad areas of economic freedom: rule of law; regulatory efficiency; limited government; and open markets. Based on its aggregate score, each of 179 countries was classified as "free" (i.e. combined scores of 80 or higher); "mostly free" (70-79.9); "moderately free" (60-69.9); "mostly unfree" (50-59.9); or "repressed" (under 50).

Sharp increases in government spending and more costly regulations contributed to continuing decline in the United States' ranking in 2012. A growing sense that policymakers put special interests above the public interest also was a factor. It was the fourth straight year of decline on the *Index* for the United States. As recently as 2008, the U.S. ranked seventh worldwide, earned a score of 81 and was considered a "free" economy. Today, the U.S. is only a "mostly free" economy, placing it in the *Index's* second-highest category.

For the 18th straight year, the *Index* ranked Hong Kong as the world's freest economy. Its score of 89.9, a slight improvement over 2011, was enough to outdistance runner-up Singapore by more than two points. Australia, New Zealand, Switzerland, Canada, Chile, Mauritius, and Ireland also were ranked above the United States. However, the United States continues to score far above the world average of 59.5 and the regional average of 73.8. It remains in second place among the three countries in the North America region – ahead of Mexico but behind Canada.

United States Score 2012

The United States' economic freedom score of 76.3, on a 0 – 100 scale, drops it to 10th place among 179 countries. Its score is 1.5 points lower than last year, reflecting deteriorating scores for government spending, freedom from corruption, and investment freedom.

The U.S. economy faces enormous challenges. Although the foundations of economic freedom remain strong, recent government interventions have eroded limits on government, and public spending by all levels of government now exceeds one-third of total domestic output. The regulatory burden on business continues to increase rapidly, and heightened uncertainty further increases regulations' negative impact. Fading confidence in the government's determination to promote or even sustain open markets has discouraged entrepreneurship and dynamic investment within the private sector.

Restoring the U.S. economy to the status of a "free" economy will require significant policy changes to reduce the size of government, overhaul the tax system, and transform costly entitlement

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programs. By boosting growth in the private sector, such freedom-enhancing policies are the best hope for bringing down high unemployment rates and reducing public debt to manageable levels.

Background

The U.S. economy, the world's largest, has not recovered fully from the 2008 financial crisis and ensuing recession. Under Democrat President Barack Obama, the federal system of government, designed to reserve significant powers to the state and local levels, has been strained by the national government's rapid expansion. Spending at the national level rose to over 25 percent of GDP in 2010, and gross public debt surpassed 100 percent of GDP in 2011. A 2010 health-care bill that greatly expanded the central government's reach has been under challenge in the courts, and the Dodd–Frank financial overhaul bill has roiled credit markets. Although the election of a Republican Party majority in the House of Representatives in late 2010 slowed spending growth, divided government has left U.S. economic policy in flux.

The U.S. drop of 1.5 points fueled a regional decrease for North America of 1.3 points, the largest decline among six regions in the world. North America also was the only region in which every country registered a decline in economic freedom. Canada slipped from "free" into the "mostly free" category, and Mexico lost ground in six of 10 measures.

The *Index's* editors attributed about half the U.S. decline to increases in government spending and another third to the explosive growth of intrusive regulations, particularly in health care and finance.

Rule of Law

Property rights are guaranteed, and the judiciary functions independently and predictably. Worrisome, however, is the four tenths of a point drop in the category of freedom from corruption. This stems from both the growing perception of corruption in government bailouts of troubled industries, including automakers and investment houses, and regulatory exemptions granted to politically well-connected companies and special-interest groups. More than 1,100 companies won exemptions from provisions of the Patient Protection and Affordable Care Act, President Obama's signature health-care legislation.

Serious constitutional questions related to government-mandated health insurance have been under consideration in the courts. Corruption is a growing concern as the cronyism and economic rent-seeking associated with the growth of government have undermined institutional integrity.

Limited Government

In the absence of comprehensive tax reforms, the top individual and corporate tax rates remain at 35 percent. Other taxes include a capital gains tax and excise taxes, with the overall tax burden amounting to 24 percent of total domestic income. This tax structure – which leans heavily on taxes on capital and investment that restrict growth – contributed to the falling scores.

Government expenditures have grown to 42.2 percent of GDP, and the budget deficit is close to 10 percent of GDP. Total public debt is now larger than the size of the economy. The United States now ranks 127th in the world in government spending.

Regulatory Efficiency

Business start-up procedures are efficient, and the labor market remains flexible. However, over 70 new major regulations have been imposed since early 2009, with annual costs of more than $38 billion. There were only six major deregulatory actions during that time, with reported savings of just $1.5 billion. Although inflation is under control, price distortions caused by government interventions persist.

Open Markets

The trade weighted average tariff rate is 1.8 percent, with non-tariff barriers such as “buy American” procurement rules adding to the cost of trade. Investment freedom is hampered by ongoing protectionist restrictions. The impact of the recently passed financial reform bills has yet to be measured, as detailed regulations are gradually emerging. However, they are likely to increase compliance costs, complicating the banking sector’s recovery.

The following table outlines the sub-category scores for the United States in 2012.

Article compiled from information from The Heritage Foundation, <http://www.heritage.org/index/press-release-North-America>, <http://www.heritage.org/Index/country/UnitedStates> accessed on January 25, 2012. Reprinted with their permission, granted January 26, 2012

U.S. Economic Freedom	**Score**	**Score Direction**
Overall Score 2011	77.8	
Overall Score 2012	76.3	Down 1.5 points
Sub Categories		
Property Rights	85.0	Flat
Freedom from Corruption	71.0	Down
Government Spending	46.7	Down
Fiscal Freedom	69.8	Up
Business Freedom	91.1	Up
Labor Freedom	95.8	Up
Monetary Freedom	77.2	Down
Trade Freedom	86.4	Flat
Investment Freedom	70.0	Down
Financial Freedom	70.0	Flat

Source: The Heritage Foundation, 2012 Economic Freedom Report
<http://www.heritage.org/index/country/United States>
accessed on January 25, 2012

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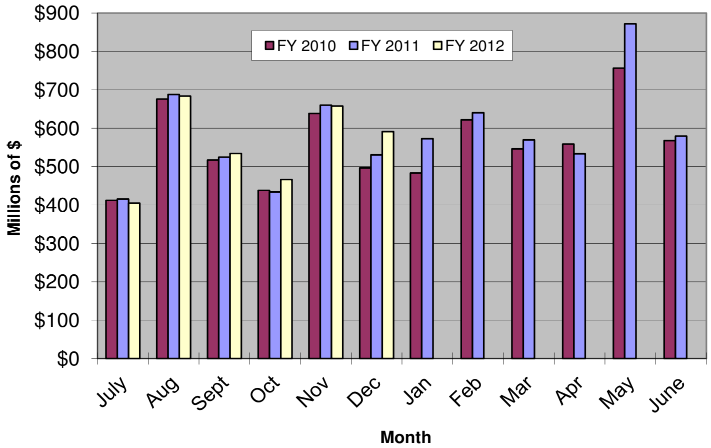
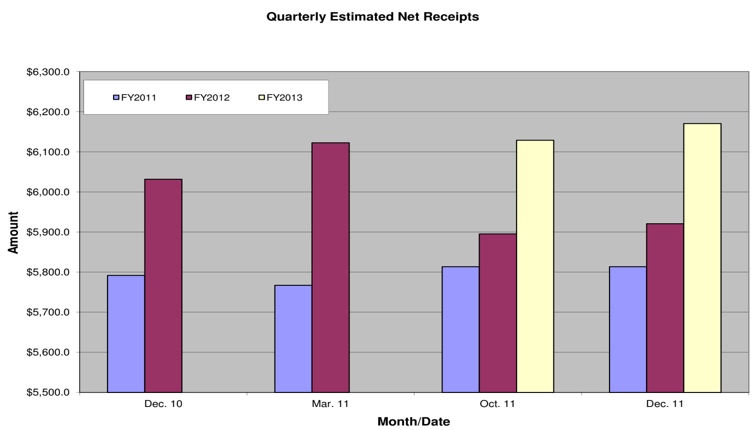
Iowa's Monthly State Revenue and Estimated Net Yearly Revenue (in millions)



Monthly State Revenue:

Monthly FY2012 state revenue was $591.2 million in December, halfway through the fiscal year. This is $60 million more than in December 2010. The year-to-date total is $86 million more than last year.

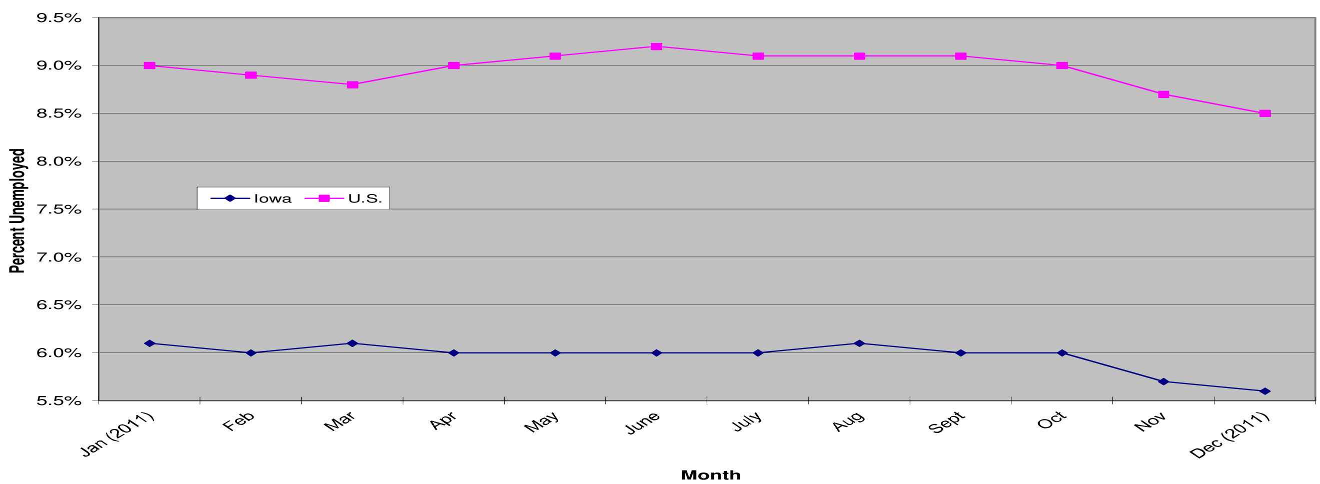


Estimated Net Yearly Revenue:

The revised Revenue Estimating Conference December estimate for FY2012 is $5,920.6 million. The official December 2010 estimate, the basis for the FY2012 budget, was $6,031.3 million. The FY2013 estimate is $6,170.4 million, almost $250 million higher than FY2012.

Source: Legislative Services Agency "Monthly General Fund Revenue Memo," and Revenue Estimating Conference Report

U.S. and Iowa's Unemployment, January 2011 - Present



Nationally, unemployment fell from 9 to 8.5 percent in the 4th quarter. The long-term unemployed number (jobless for 27+ weeks) remained very high at 5.6 million, accounting for 42.5 percent of the total. Involuntary part-time workers were 8.1 million, while another 2.5 million people have quit looking for work. The Iowa rate also continued a slow drop to 5.6 percent. However, the number of people employed remains 10,500 below the 1,576,000 employed in January 2011, at 1,565,500.

Source: Iowa Workforce Development, Labor Market Information Bureau, "Monthly Unemployment Rate News"

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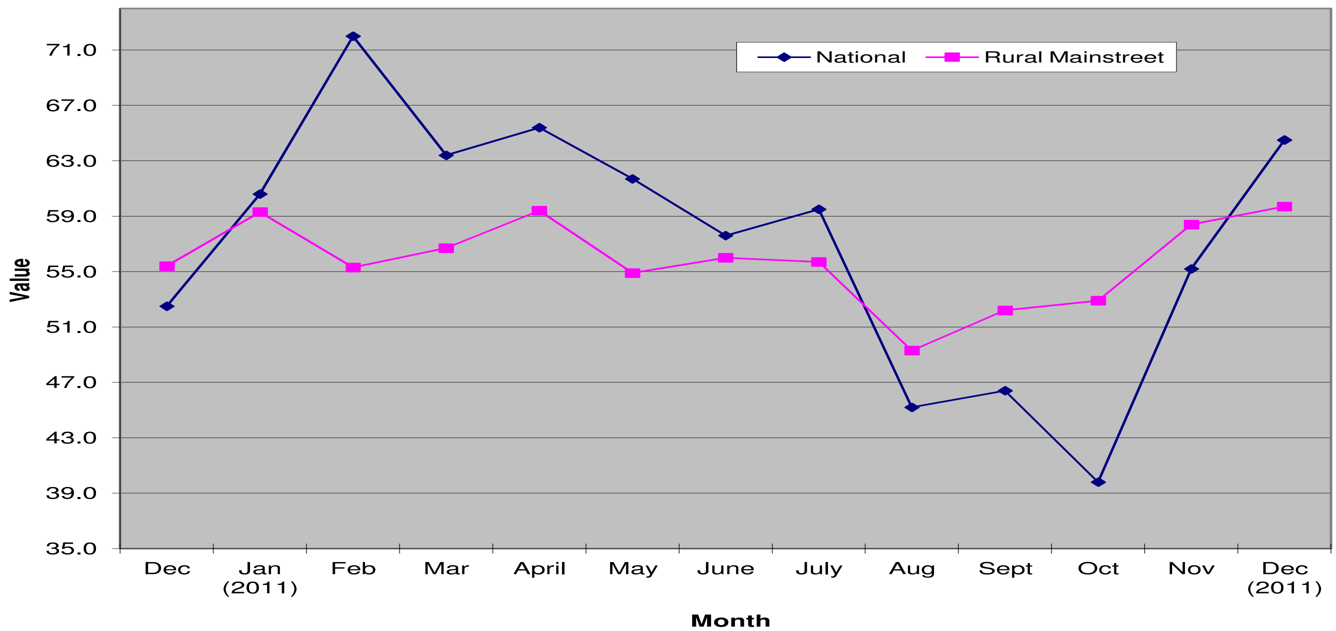
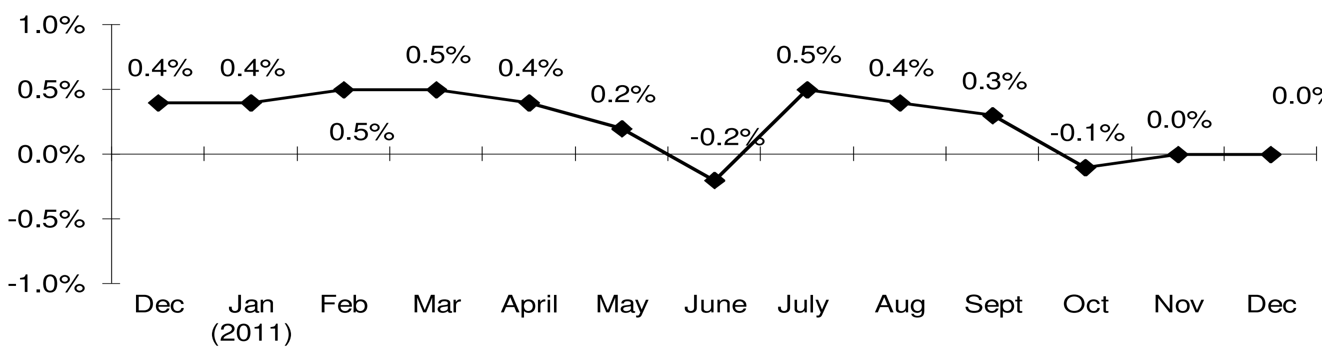
Consumer Confidence Index



The national Consumer Confidence Index (CCI)' increased again in December, to 64.5. According to the Conference Board, "The ... Index is now back to levels seen last spring (April 2011, 66.0). Consumers' assessment of current business and labor market conditions improved again" in December. The RMI for Iowa advanced to 56.3 from 51.7 in November. Rural Mainstreet Index creator Ernie Goss said, "While slower global economic growth, higher energy costs, and softer agriculture commodity prices will mean somewhat slower growth ... our surveys continue to show healthy growth for the area."

Source: Conference Board, "Consumer Confidence Survey," and Creighton University

Consumer Price Index, Monthly Change



The seasonally adjusted official Consumer Price Index remained flat in the 4th quarter. Over the last 12 months the all items index increased 3 percent before seasonal adjustments. The gasoline index declined for the third month in a row and the household energy index declined as well. The food index rose in December, with the index for food at home turning up after declining in November.

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

Iowa Statewide Economic Indicators

Latest Economic Indicators	Actual Number	Amount of Change	Time Period Reported
New Vehicle Registrations	112,576	16.4%	Nov 2010 - Nov 2011
New Housing Permits	5,245	-33.3%	Nov 2010 - Nov 2011
Existing Home Sales	53,200	-5.0%	Jan - Sept 2011
Total Resident Jobs	1,565,500	3,500	Nov - Dec 2011
Non-Farm Employment	1,482,400	-4,700	Nov - Dec 2011
Factory Jobs	208,500	800	Nov - Dec 2011
Initital Unemployment Claims	31,494	58.2%	Nov - Dec 2011
Jobless Rate	93,500	5.6%	December 2011
Personal Income	$38,084	3.0%	2009 - 2010
Exports of Goods	$10.9 billion	N/A	2010
Farmland Values	$5,064	32.5%	Oct 2010 - Oct 2011

Source: Iowa Workforce Development News and Trends, January 23, 2011
<http://www.iowaworkforce.org/trends/>
<http://www.trade.gov/mas/ian/statereports/states/tg_ian_002727.asp>

Obama Kills Keystone While Defending Energy Record

By Marita Noon, Executive Director, Energy Makes America Great, Inc.

Within 24 hours of rejecting the Keystone XL pipeline project — angering unions, industry, and Republicans — President Obama released his first campaign ad touting his record on energy. The ad cites a study from the Brookings Institute and implies that President Obama has created 2.7 million jobs in green energy, a number that is “expanding rapidly.” Next the ad brags about the fact that for the first time in 13 years, America is now less than 50 percent dependent on foreign oil. Both numbers have some truth — but both have little to do with the President’s efforts.

First, the jobs number. 2.7 million green jobs is the total number of green jobs in the economy — many of which existed long before President Obama took office. Additionally, according to a Reason fact check, while the 2.7 million number may be “clean” jobs, only a small fraction of that number are actually in the “green energy” industry — 140,000 according to Brookings — and this was before thousands of jobs were lost at Solyndra, Stirling Energy, Range Fuels, or other green energy companies that have gone under in the last few months.

Next, the claim that America is now less dependent on foreign oil. This is true, but deceptive. Our lowered dependence is not because the President has done anything good, it is in part because of the bad economy. People are using less oil, therefore we need less from foreign sources. Additionally, we are producing more oil domestically. North Dakota’s Bakken Field has doubled its production in the last two years — from 246,000 barrels a day to 509,754 in November 2011. Just this domestic production is enough to completely displace oil imported from Iraq. President Obama cannot take any credit for the Bakken windfall. In fact, his administration is threatening a moratorium on fracking, which would send the oil patch into a free fall — thousands of workers would be unemployed overnight and the U.S. dependence on foreign oil would be up past 50 percent.

Obama's EPA doesn't like states having their own regulations; they prefer that everything be done on the federal level where they are more insulated from local input. When states can make their own decisions, the dramatic impact of regulation becomes obvious. Pennsylvania allows horizontal hydraulic fracturing (HHF), New York does not. The contrast is stark. In Upstate New York, property taxes have been raised due to the known oil assets, but a HHF moratorium prevents people from cashing in on their bounty. In many cases, landowners' annual tax bill is more than their mortgage. Local governments are facing eminent bankruptcy. Farmers have had to shut down their farms and find work in the oil industry across the state line in Pennsylvania. What they see in Pennsylvania is a vibrant economy. Families are moving in. New homes are being built. Farms are buzzing with activity and new equipment. Help wanted signs are everywhere. In the last few years, unemployment has dropped from 10 percent to 5 percent.

The EPA has been piling regulations on the energy creators that will raise costs of electricity — hurting consumers and businesses. New rules such as the Cross State Air Pollution Rule, the Utility MACT Rule, and Coal Ash Regulation will force coal-fueled power plants to shut down and kill thousands of jobs. Just this week, the state vs. federal regulation issue cropped up when environmental groups announced they would sue the EPA to accelerate the agency's regulation of coal ash — causing coal ash to be regulated on a federal level by the EPA as hazardous waste, adding costs of up to $110 billion over twenty years and killing an estimated 316 thousand jobs. Currently, states make their own individual decisions that fit their unique circumstances about treatment and disposal of coal ash.

It is not just the EPA. Under the Obama administration, proposed listings of endangered species have gone up, rushed through with spurious science. Oddly, the habitat of the proposed species is often an area with known natural resources — such as the oil-rich Permian Basin of West Texas and Southeastern New Mexico. For the past year, locals have been fighting the proposed listing of the sand dune lizard knowing that the Endangered Species Act (ESA) listing could decimate the region — much like the spotted owl listing did to the logging communities of the Pacific Northwest.

On Wednesday, January 18, the New Mexico Association of Counties unanimously approved a resolution in opposition to the listing of the sand dune lizard as an endangered species. Listing proponents claim the industry is using scare tactics to stir up local opposition to the listing. However, even though the lizard is currently in a "proposed" status and is not officially listed, there is already an economic impact on the region. For example, a local mining company has a four-mile water pipeline that needs to be repaired. The Bureau of Land Management (BLM) will not allow them access to the line because it is in the lizard's habitat. Instead, they've been told that they must build a new pipeline that will go around the proposed habitat. The new pipeline will be twenty miles long and cost estimates are at $30 million or more — which will likely require extensive environmental impact studies before the work can commence. And this is before the lizard has actually been listed. Imagine all the obstacles and increased costs industry will have if the lizard is listed.

America's lowered dependence on foreign oil is not because of President Obama, it is in spite of the efforts of his administration. It is not due to government encouragement, but rather due to industry innovation and American grit and determination.

The proposed moratorium on fracking in the Bakken Field would kill jobs, coal ash regulation could be the most detrimental of all of the new regulations, and the proposed listing of the sand dune lizard could turn a booming regional economy into a series of ghost towns.

There is plenty of talk about the proposed jobs killed by the President's decision to deny the permit for the Keystone XL pipeline, but jobs have already been lost. For example, Welspun Tublar Company in Little Rock, Arkansas, makes steel pipe for the oil industry. They have 500 miles of pipe that was expected to ship out for the Keystone XL pipeline.

After President Obama announced he would delay his decision until after the November 2012 election (for which he's now officially denied the permit), Welspun had to lay off 60 employees. The mother-in-law of one of the workers to lose his job says, "Obama is killing jobs on purpose. The more people he can get on the dole, the more control he has over them."

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In his frequent promises to focus on jobs, we just didn't understand that he meant focusing on *killing* jobs in the oil, gas, and coal industries.

Despite the Obama campaign ad's claims, President Obama is not creating jobs in the energy sector and he is not responsible for the reduction in foreign oil imports. His administration's agenda-driven actions are, perhaps, more about bolstering the Democrat Party than boosting the American economy. If they can ban the use of fracking for oil and gas extraction, they will serve a near fatal blow to the domestic energy boom — which is a result of industry's technological advances in hydraulic fracturing — and turn off the flow of new wealth into states formerly hit by hard times.

A government-dependent public tends to vote Democrat to insure the entitlements continue. The higher-paying jobs in the energy sector, the ability of landowners to prosper, and revitalized communities eliminate the need for federal handouts. Natural gas's abundance has dropped prices to new lows, threatening the viability of highly-favored, taxpayer-subsidized wind, solar, and ethanol.

It is in the Democrat's self-interest to brag about their energy record, while subtly using regulation to virtually end domestic energy development.

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Question of the Quarter:

What are the most important economic issues to you in 2012?
Are our elected representatives addressing these issues in a way you agree with?

Send your response to us at Public.Interest.Institute@LimitedGovernment.Org,
or answer on-line at http://www.LimitedGovernment.org/IESFeb2012.html.
We may publish your response in the May 2012 issue of *IOWA ECONOMIC SCORECARD*.