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IOWA ECONOMIC SCORECARD

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Mirror, Mirror On the Wall; Who's the "Fairest" of Them All?

By Deborah D. Thornton

Discussions of "fairness" and "equity" have been rampant over the last few years. There must be fairness and equity in all things. And if not, something must be done to change it. Winter is a time for reading and two books on my list highlight this issue.

The first, Who's the Fairest of Them All? by Stephen Moore, is a fairly short – yet dense – discussion of the reality of opportunity, taxes, and wealth in the U.S. over the past 100 years. Moore delves into the real numbers and results of economic growth, jobs and wages, and tax policy.

The four different major tax rate cuts – under Harding and Coolidge in the 1920s, Kennedy in the 1960s, Reagan in the 1980s, and Bush in the 2000s – all resulted in significant economic growth and increased tax revenues to the federal government.[1]

American families all benefited each time tax rates were cut as jobs, investment, and innovation increased significantly. In the '20s we became able to afford radios, indoor plumbing and hot water, and movies.[2] In the '60s we purchased TVs, washers and dryers, plastics, and Ford Mustangs. In the '80s air travel became the norm, along with microwaves, and a guy by the name of Bill Gates was busy.

Following the cuts of the early 2000s under President Bush, by 2005 even the poor – those claimed to be most "unfairly" treated during his administration – could afford color TVs (97 percent of all poor households), personal computers (78 percent), and cell phones (82 percent).[3] Virtually every home in America now has technology unthinkable 100 years ago and we work less time to afford it.

In addition, following each of these tax-rate cuts the amount of revenue actually collected by the federal government from the "rich" increased significantly. Unemployment rates decreased and real incomes of all Americans increased. Women and minorities increased their incomes at greater rates than others did; the poor became less poor, and many people moved into the middle class. Moore provides solid documentation of these facts.

Interestingly, state tax rates also have significant impact. In general states with the largest population and economic growth over the last 30 years, Arizona, Florida, Georgia, Nevada, Texas, and Utah all have low or no personal income tax. In contrast, high personal income tax states such as Michigan (6.85 percent), New York (12.62 percent), Ohio (7.93 percent), and Vermont (9.4 percent) have lost jobs and population.[4]

Tax cuts change behaviors and conditions for employers and employees, investors and consumers, by encouraging them to work, save, and invest. The end result is fairer for all.

Moore ends his book by discussing the flat tax, using evidence from Hong Kong. Hong Kong has had a simple 15 percent flat tax for the last 50 years. It is "one of the wealthiest places on the globe."[5] He also focuses on the improper use of the tax code both to reward behaviors as varied as charitable donations, home buying, college, and energy efficiency, to punish behaviors such as cigarette and alcohol use, and to encourage special-interest loopholes. He also argues that the tax code complexity is inherently unfair – two people with basically the same income can pay radically different tax rates based on their understanding and use of these deductions and loopholes. In conclusion, the current system is not fair.

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The Federal Reserve Continues to Bail Out the Federal Government: Unmatched Debt Buying Supports Federal Overspending

By Dr. Ernie P. Goss
Jack A. MacAllister Chair in Regional Economics
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Since 2008, the United States federal government has run yearly deficits in excess of $1 trillion and has expanded its debt to $16.4 trillion. Despite this borrowing binge, interest rates on U.S. debt hover at record lows. Why? To paraphrase former Wyoming Senator Alan Simpson, U.S. debt is the healthiest horse in the glue factory. That is, investors are lending to the U.S. Treasury because all other options are more risky. But it goes beyond this.

During its 100 years of operations, the Federal Reserve (Fed) never matched its current aggressive monetary expansion activity. Since December 2008, the Fed has held its short-term interest rate at close to 0 percent. Furthermore, the Fed has launched three bond-buying programs, termed quantitative easing 1, 2, and 3 (QE1, QE2, and QE3). When the Fed launched QE1 in November 2008, the yield (market interest rate) on U.S. 10-year U.S. Treasury bonds was 3.3 percent. QE3 was inaugurated in September 2012 with the Fed currently purchasing $85 billion per month of long-dated Treasury bonds and mortgage-backed securities with the result of driving the rate on U.S. Treasury bonds to 1.8 percent.

At this point in time, the Fed holds more than $3 trillion in bonds, or approximately 18 percent of total U.S. federal debt. By buying U.S. Treasury bonds and keeping interest rates artificially low, the Fed has incentivized the U.S. government to borrow and overspend. When the Fed begins to sell these bonds, which they will, interest rates will move in the opposite direction.

A return to pre-QE1 interest rates would cost U.S. taxpayers as much as $240 billion per year. Who will bear this guaranteed added burden?

Source: Reprinted with permission, "The Mainstreet Ecnomomy Report," Creighton University, January 2013 <http://business.creighton.edu/sites/business.creighton.edu/files/basic-page/MSE_Jan13.pdf>. Dr. Goss established and manages the Rural Mainstreet Index (RMI) survey and report. The RMI covers 10 regional Upper Midwest/Plains states, focusing on approximately 200 rural communities with an average population of 1,300.

A Golden Deutsche Mark Can Save the World

By Patrick Barron, PMG Consulting

Prologue:

The euro debt crisis in Europe has presented Germany with a unique opportunity to lead the world away from monetary destruction and its consequences of economic chaos, social unrest, and unfathomable human suffering. The cause of the euro debt crisis is the misconstruction of the euro that allows all members of the European Monetary Union (EMU), currently seventeen sovereign nations, to print euros and force them upon all other members. Dr. Philipp Bagus of King Juan Carlos University in Madrid has diagnosed this situation as a tragedy of the commons in his aptly named book, *The Tragedy of the Euro*. Germany is on the verge of seeing its capital base plundered from the inevitable dynamics of this tragedy of the commons. It should leave the EMU, reinstate the Deutsche Mark (DM), and anchor it to gold.

The Structure of the European Monetary Union

The European System of Central Banks (ESCB) consists of one central bank, the European Central Bank (ECB), and the national central banks of the EMU, all of which are still extant within their own sovereign nations. Although the ECB is prohibited by treaty from monetizing the debt of its sovereign members via outright purchases of their debt, it has interpreted this limitation upon its power NOT to include LENDING euros to the national central banks taking the very same sovereign debt as collateral. Of course this is simply a back-door method to circumvent the very limitation that was insisted upon when the more responsible members such as Germany joined the European Monetary Union.

Corruption of the European Central Bank into an Engine of Inflation

When first formed around the turn of the new millennium, it was assumed by the bond market that the ECB would be operated along the lines of the German central bank, the Bundesbank, which ran probably the least inflationary monetary system in the developed world. However, it was also assumed by the bond market that the EMU nations would not allow one of its members to default on its sovereign debt. Therefore, the interest rate for many members of the EMU fell to German levels. Unfortunately, many nations in the EMU did not use this lower interest rate as an opportunity to reduce their budgets; rather, many simply borrowed more. Thus was borne the euro debt crisis, when it became clear to the bond market that debt repayment by many members of the EMU was questionable. Interest rates for these nations soared.

Over the past few years the European Union itself has established several bailout funds, but the situation has not been resolved. In fact, things are even worse, for it now appears that even larger members of the EMU succumbed to the debt orgy and may need a bailout to avoid default. Thus we have arrived at the point predicted by Dr. Bagus in which the euro has been plundered by multiple parties and the pot is empty. The ECB and many sovereign members of the EMU want unlimited bond buying of sovereign debt by the ECB. Only Germany opposes this plan, but the Germans are the lone voice against this new bout of monetary inflation.

The Historical Context of German Antipathy to Monetary Inflation

In 1923 Germany experienced one of the world's worst cases of hyperinflation and the worst ever for an industrialized nation. The Reichsmark was destroyed by its own central bank, plunging the German people into misery and desperation. Now, after only a dozen years of relative monetary discipline, the euro faces the same fate, as country after country demands to be bailed out of its mounting debts by unlimited printing of money by the ECB. Because Germany is part of the EMU, it must accept these newly printed euros. This threatened monetary inflation of unlimited amounts has shaken German bankers to the core.

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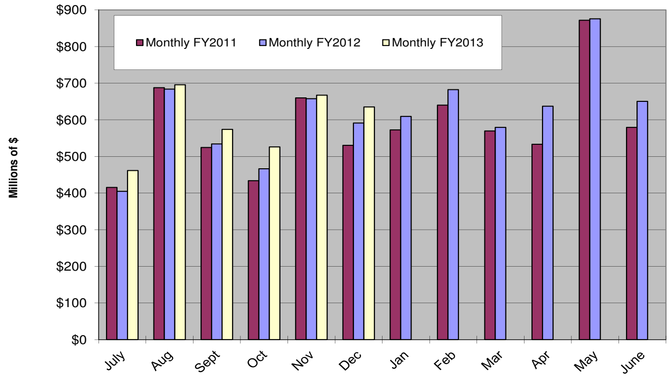
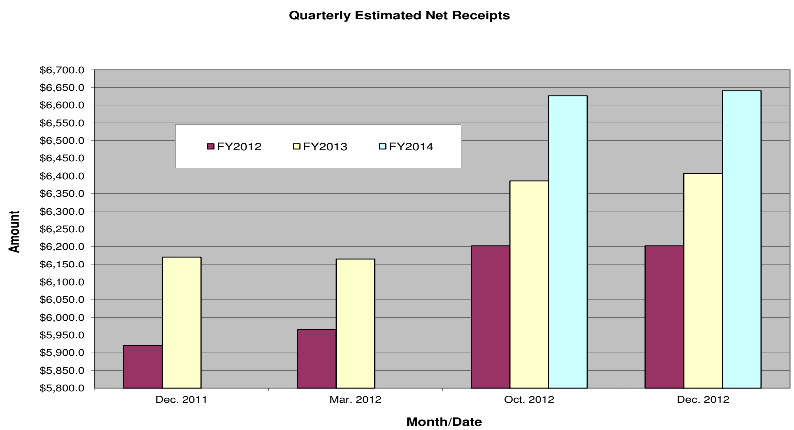
Iowa's Monthly State Revenue and Estimated Net Yearly Revenue (in millions)



Monthly State Revenue:

As of December 2012 the FY13 state revenue total was $3,559.4 million, almost $225 million higher than in FY12. This is six percent higher than in FY12. Though the real workforce is down, and few – if any – workers have received 6 percent raises, tax collections are up. Tell your Legislators, no new taxes.

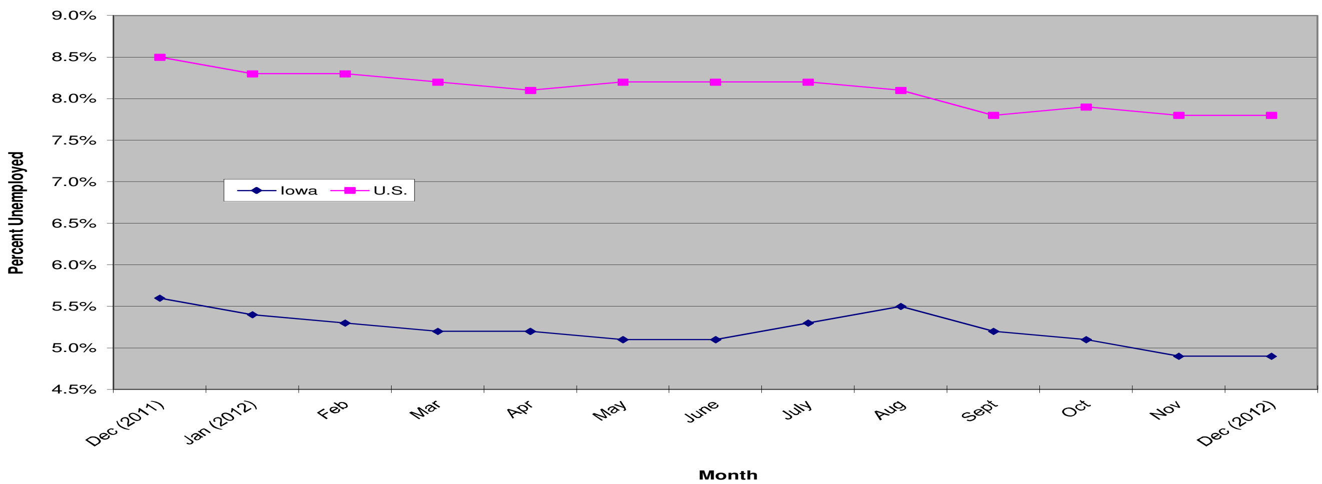


Estimated Net Yearly Revenue:

The revised Revenue Estimating Conference December prediction for FY13 is $6,406.8 million, up from the official December 2011 estimate of $6,170.4 million. The FY14 official estimate is $6,640.5 million, an increase of almost $500 million from taxpayers.

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

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



Nationally, unemployment remained flat in the 7.8-7.9 percent range, with many workers still not even looking for jobs. Iowa's unemployment rate was 4.9 percent for the second month in a row, with 80,000 unemployed. The total potential Iowa workforce remains low, with only 1,638,500 people in the workforce. Almost 56,000 people have stopped looking for work since the high in March 2007. Welcome to the new "normal."

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

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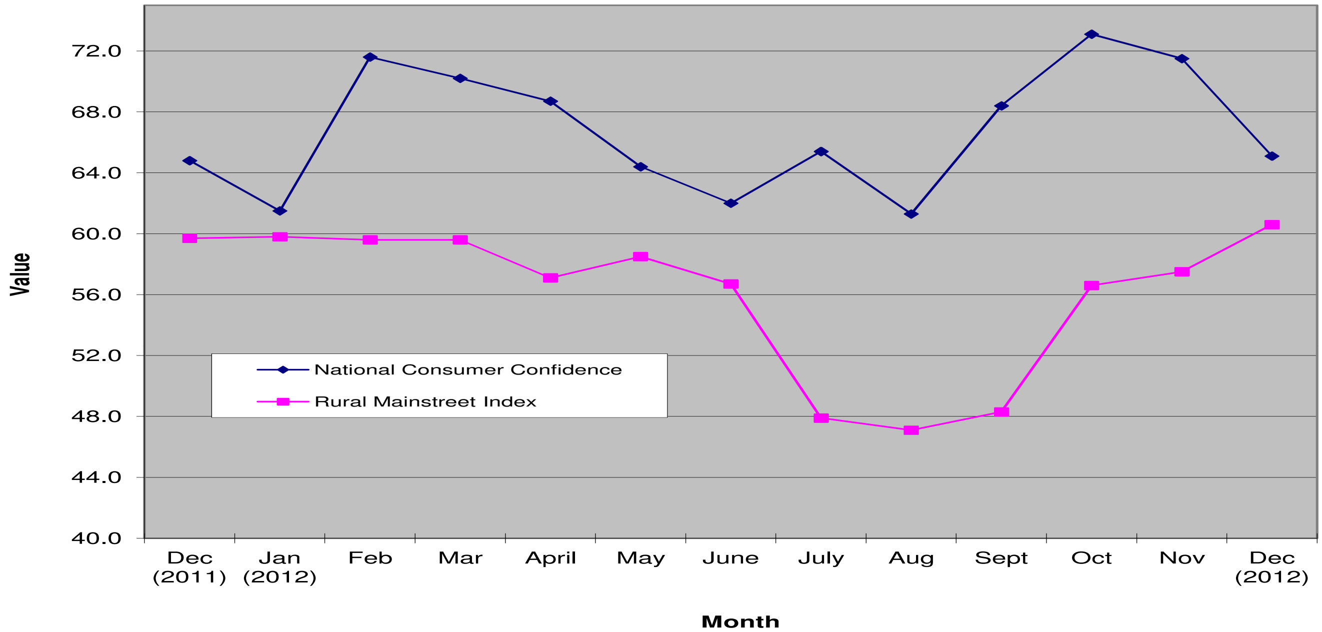
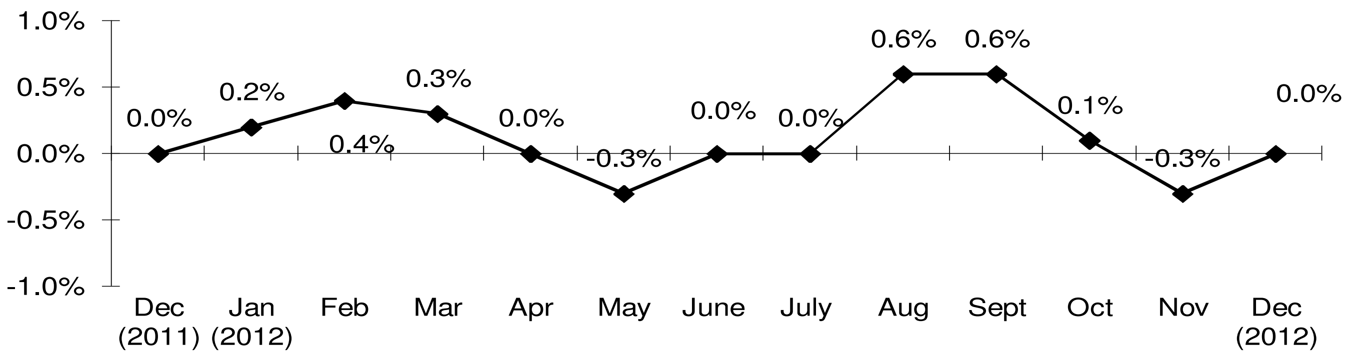
Consumer Confidence Index



The national Consumer Confidence Index (CCI) fell significantly in December, to 65.1. According to the CCI board, "Consumers' expectations retreated sharply in December. The sudden turnaround was most likely caused by uncertainty surrounding the oncoming fiscal cliff." The Rural Mainstreet Index (RMI) for December continued to increase, to 60.6, the highest since June 2007, driven by "very strong agriculture commodity prices and lower energy prices." The Iowa index was slightly higher at 63.6, reflecting increased farmland prices and equipment borrowing.

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

Consumer Price Index, Monthly Change



Over the last 12 months, the CPI, a measure of inflation, increased 1.7 percent before seasonal adjustment. The main increases were in food and shelter. Most importantly, five of the six major grocery store food groups increased. Gasoline declined, the only major index to do so. Natural gas and electricity both increased. The indexes for airline fares, tobacco, and medical care also increased, though the implementation of Obamacare was supposed to reduce medical care costs.

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

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It is the nightmare scenario that they feared when, against their better judgment, the German politicians agreed to give up their beloved Deutsche Mark and place the economic fate of the nation in the hands of a committee of foreigners not as concerned about monetary inflation. But Germany can put a stop to this destruction and save the world while it saves itself. It can leave the EMU, reinstate the Deutsche Mark, and tie it to gold.

A Golden Deutsch Mark Is Possible and Desirable

Despite the haughty pronouncements of European Union officials, there is nothing that can stop a sovereign country from leaving the EMU and adopting a different monetary system. The most likely scenario would be a one-for-one redenomination of euro bank accounts for Deutsch Marks (DM). Thereafter, the DM would float freely in currency markets in the same way as British Pounds and American Dollars. The Bundesbank would be responsible for monetary policy just as it was before Germany joined the EMU. By leaving the EMU Germany would insulate itself from the consequences of the euro as a tragedy of the commons; i.e., monetary inflation by third parties would end, Germany would not experience higher prices due to the actions of third parties, and the capital-destroying transfers of wealth would end.

Yet Germany should go one step further. It should anchor the DM in gold. Germany is the world's fourth largest economy, behind only the United States, China, and Japan. Furthermore, Germany owns more of the world's gold than any other entity except the United States – more than either China or Japan, and more than any other European country. A prerequisite to market acceptance of any gold money would be confidence in the integrity of the sponsoring institution. Not only is the Bundesbank known for its integrity and reverence for stable money, Germany itself has a worldwide reputation for the rule of law, advanced financial architecture, and a stable political system. For these reasons, Germany would prove to the world that gold-backed money not only is possible but desirable. Expect a cascade of similar pronouncements once Germany's trading partners realize the importance of settling international financial transactions in the best money available...which initially at least would be a golden DM.

Germany Should Seize the Moment!

Of course the beneficial consequences of tying money to gold go beyond ending price inflation and capital-destroying wealth transfers. We can expect a return to all the beneficial consequences of a return to limited government. Specifically, governments could no longer be funded through the unholy alliance with an inflationary central bank that creates fiat money in order to monetize government's profligate spending. The people would no longer be so subservient to government, pleading and begging for special interests at the expense of the rest of society, because government would be forced to go to the people for approval to increase its budgets. The list of benefits goes on and on. Suffice it to say that it all begins with truly sound money, money anchored in gold. Germany can lead the way and earn the just respect of a grateful world. It is in the right place at the right moment in history. It should seize the moment!

Printed with permission of the author. Mr. Barron is with PMG Consulting of Pennsylvania and Iowa, and has taught Austrian School Economics at the University of Iowa. Mr. Barron has spoken on economic issues at the European Parliament in Belgium and France, and at the Institute of Economic Affairs in England. He has been published by the Mises Institute in the United States, Canada, and Germany, and wrote for The Bulletin until 2008. Further work is available at www.patrickbarron.blogspot.com

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The second book I've found very interesting, useful, and scary is Unlearning Liberty – Campus Censorship and the End of American Debate, by Greg Lukianoff of the Foundation for Individual Rights in Education (FIRE).

Lukianoff clearly and convincingly presents evidence of the suppression of freedom of speech on high school and college campuses in the name of "fairness." He raises significant concerns that our young people are learning both to just keep their mouth shut and go along to get along – and that it is both right and appropriate for those in power to be able to control and punish those who dare to offer a different opinion.

The First Amendment is designed to protect minority opinion. The idea that wrong or minority opinion must be suppressed – even if that opinion is considered racist or hateful – has the potential to hurt any one of us, because we are not always going to be "right" or in the majority. Protecting the right of one individual to be wrong protects all our rights to be wrong. This is the core of John Stuart Mill's work from way back in 1859. But this is no longer true in our schools and colleges, the place where it should be most true.

Lukianoff discusses how this leads to both group think and the intellectual weakening of our students, as shown in the report "Academically Adrift," where researchers found that few students know "how to argue or think critically."[6]

Unfortunately, a report just issued by the University of California in Los Angeles reinforces his

Iowa Statewide Economic Indicators

Latest Economic Indicators	Actual Number	Amount of Change	Time Period Reported
New Vehicle Registrations	133,223	8.1%	Dec 2011 - Dec 2012
New Housing Permits	9,512	34.8%	Nov 2011 - Nov 2012
Existing Home Sales - Midwest	1,190,000	21.4%	Nov 2011 - Nov 2012
Total Resident Jobs	1,558,600	-14,700	Dec 2011 - Dec 2012
Non-Farm Employment	1,494,200	1.0%	Dec 2011 - Dec 2012
Factory Jobs	218,500	3.4%	Dec 2011 - Dec 2012
Initital Unemployment Claims	27,019	-14.2%	Dec 2011 - Dec 2012
Jobless Rate	80,000	4.9%	December 2012
Personal Income	$40,470	6.4%	2010 - 2011
Exports of Goods	$13,307	22.0%	2010 - 2011
Farmland Values	$10,445	23.7%	2011 - 2012

Source: Iowa Workforce Development News and Trends, January 22, 2013,
<http://www.iowaworkforce.org/trends/>
<http://www.census.gov/foreign-trade/statistics/state/data/ia.html>
<http://www.agweb.com/blog/Your_Precious_Land_217/>

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concerns. A consistent 60 percent of college freshmen surveyed believe that they are above average in being able to discuss and negotiate on controversial issues, more tolerant of people with different beliefs, able to see the world from someone else's viewpoint, and open to having their own views challenged. Yet amazingly 70 percent believe that "colleges should prohibit sexist and racist speech on campus."[7] This is up from less than 60 percent in 1992.

The step from prohibiting sexist and racist speech to prohibiting other kinds of speech, not only on campus but also in workplaces and communities, is a very small one. If a behavior is normalized in one circumstance, extending it to another is easy. Lukianoff gives many examples of students today not only accepting this censorship, but also supporting and promoting it.

The acceptance of speech codes, censorship of free speech, and limits on a core American freedom are encouraged under the guise of "fairness." Likewise the government redistribution of private assets from those who earned them by their own hard work is accepted in the guise of "fairness." I think "fairness" is overrated. I'll take my chances – as my parents used to tell me, "Who told you that life was supposed to be fair? Now get to work." Now stay away from that mirror – it lies.

(Endnotes)

[1] Stephen Moore, Who's the Fairest of Them All?, Encounter Books, 2012, p. 102.

[2] Moore, p. 104.

[3] Ibid.

[4] Moore, p. 92.

[5] Moore, p. 116.

[6] Greg Lukianoff, Unlearning liberty, Campus Censorship and the End of American Debate, Encounter Books, 2012, p. 27.

[7] "Backgrounds and Beliefs of College Freshmen," Higher Education Research Institute, University of California Los Angeles, January 24, 2013, <http://chronicle.com/article/BackgroundsBeliefs-of/136771/?cid=at&utm_source=at&utm_medium=en> accessed on January 24, 2013.