

IOWA ECONOMIC SCORECARD

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How Much of Our Money Does State Government Really Need?

By Deborah D. Thornton

The FY 2013 year-end report on Iowa General Fund revenues shows that state government taxing and spending is at an all-time record high, and it keeps going up. The FY 2013 net appropriations were \$6.413 billion, up over \$450 million from FY 2012.¹ The budget has grown from \$4.8 billion since 2005, as Graph 1 outlines. This is an additional \$1.5 billion per year of workers' money, their hard-earned private property, that they no longer control.

This growth in taxes collected has resulted in a "record" surplus of \$927.9 million – almost \$1 billion more collected and being held in the state treasury than was appropriated by the Legislature. This is about \$333 per person, or about \$1,300 for a family of four. My family could have used that money last year.

The vast majority of our taxes went to the government schools – \$2.7 billion – followed by state employee salaries and benefits at \$1.38 billion. The next highest category was Medicaid at just under a billion dollars.²

According to the report, "From FY 2004 to FY 2013, General Fund appropriations increased \$1.907 billion (from \$4.525 billion to \$6.432 billion), an average annual increase of 4.0 percent."³ Question: Has your salary increased 4 percent per year for the last ten years? Mine hasn't.

School funding has increased even more, at about 5 percent per year, though from the complaints from the Iowa City Community School District delegation (100 percent Democrats) one would think Governor Branstad had taken books right out of the children's hands. They will be lobbying for a 6 percent increase, though 4 percent was already agreed to last year.⁴

The greatest increase has been in Medicaid, which went up 12 percent, even before Obamacare kicked in.⁵ Again, Johnson County Democrats take the position that Republicans are dragging people from their doctor's office and pushing them directly into the grave.

However, state government isn't spending all the money they take from us. The Cash Reserve Fund and Economic Emergency Fund (the "rainy day" funds) have both been completely replenished following the 2008-09 economic down-turn and now have a balance of \$611 million.⁶ These funds are a necessary reserve and appropriate buffer.

In addition, the Legislature (again, led by those awful Republicans) set up a Taxpayer Trust Fund in 2012. As the Revenue Report says, "The Trust Fund was created for the purpose of providing tax relief to Iowans from the ... surplus that exceeds the amount necessary to 'fill up' the state's Cash Reserve and Economic Emergency Funds. The statute requires the moneys ... to be used solely for tax relief." As of today the Taxpayer Trust Fund balance is \$120 million. The important thing to know about this Trust Fund money is that you will not get it back. When you file your 2013 state taxes in April, you will be eligible for a "non-refundable" tax credit of about \$54 per taxpayer.⁷ "Non-refundable" means just that – you don't get a refund, only a credit against the taxes you owe.

Yet liberal organizations such as the Iowa Fiscal Partnership (IFP) do not think you should even get that credit. They recently issued a statement lamenting the fiscal irresponsibility of enacting property tax cuts for Iowa small businesses and individual taxpayers and argued for additional growth in spending, calling it a "budget dilemma."⁸ This is even though the state budget has increased by over a billion dollars in the last five years, about 4 percent per year. The question remains: "Has your salary increased by that much, every year, since 2007?" The only budget dilemma is how Iowa workers and families are going to pay their bills with the money left after the government takes over \$6 billion of it from them.

As a side note, the IFP, based at the University of Iowa, receives a substantial part of their staffing

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and funding from...state and federal government.⁹

As our representatives in the Legislature go about their work – which is supposed to be reflecting the best interests of their constituents – we, the workers who are paying these taxes, need to continue to ask, "How much of our hard-earned money does state government really need?" My answer will continue to be, "Not this much!"

Maybe if the government did not take private property from businesses and workers in the first place, these businesses could pay their workers more, workers could afford to buy and invest more, and none of us would need the government to "take care" of us.

(Endnotes)

¹ "State of Iowa, FY 2013 Year End Report on General Fund Revenues and Appropriations," Legislative Services Agency, Fiscal Services Division, December 2013, p. 1 <<https://www.legis.iowa.gov/docs/LSARports/GeneralFundBudget/Summary.pdf>> accessed on January 23, 2014.

² *Ibid.*, p. 3.

³ *Ibid.*, p. 4.

⁴ "Long List, Short Session," *Iowa City Press-Citizen*, January 10, 2014, <<http://www.press-citizen.com/apps/pbcs.dll/article?AID=2014301110023>> accessed on January 23, 2014.

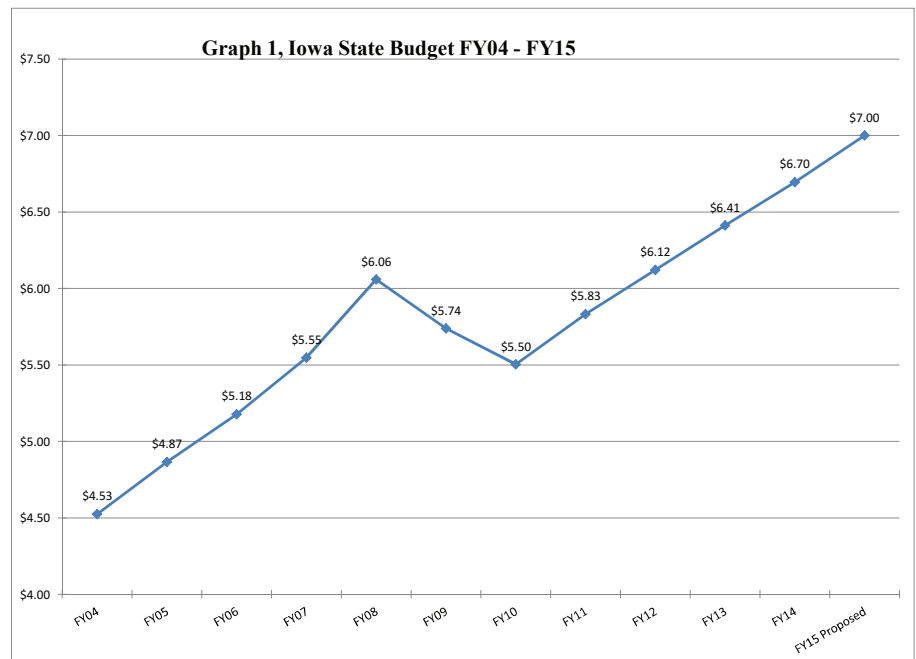
⁵ "State of Iowa," p. 4.

⁶ *Ibid.*, p. 12.

⁷ *Ibid.*, p. 13.

⁸ "Iowa Budget Dilemma for 2014," Iowa Fiscal Partnership, January 13, 2014, <<http://www.iowafiscal.org/iowa-budget-dilemma-for-2014/>> accessed on January 23, 2014.

⁹ "Who We Are," The Iowa Policy Project, <<http://www.iowapolicyproject.org/WhoWeAre.html>> accessed on January 23, 2014.



Numbers in Billions of Dollars

Source: <https://www.legis.iowa.gov/publications/fiscal>
Long-Term Revenue Report, accessed on January 23, 2014

Making Budget Rules Work

By David M. Primo, Ani and Mark Gabrellian Professor, University of Rochester
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The United States faces severe fiscal challenges — most notably, the unsustainable growth of entitlement spending and a mounting debt burden that raises concerns about the government’s ability to pay it back without strangling economic growth. These threats reflect the inability of Congress and Presidents to make the hard choices necessary to restore fiscal responsibility to the federal budget.

While there is always talk of budget reform in Washington, Congress inevitably fails to construct effective and lasting fiscal restraints. This is the result of two key problems faced by legislators: commitment and enforcement. Well-designed budget rules can help legislators overcome these problems to create credible and sustainable changes to the federal budget. The following are ten actionable principles for ensuring that elected officials enact fiscally restrained budgets. These principles are also applicable to the state budget process.

Ten Principles of Budget Rule Design

1. Use budget rules to change the terms of the debate. Budget battles will be fought differently if fiscal responsibility is a requirement, not an option.

2. Apply rules permanently and to the entire federal budget. Temporary rules or rules exempting certain programs won’t help in the long run.

3. Focus on spending. Washington cannot address the looming budget crisis without gaining control of the unsustainable spending growth that drives it.

4. Build flexibility into rules by “smoothing.” Tie budget rule targets or limits to a multi-year period or long-term economic performance to accommodate economic downturns or other transitory events.

5. Build flexibility into rules by incorporating limited, carefully constructed emergency provisions. Account for major disruptions like war.

6. Be precise to prevent loopholes and gimmicks. History proves that if there is a way around a rule, a legislator will find it.

7. Pay careful attention to “starting points.” Consider cutting inflated spending levels (e.g., from stimulus) prior to pegging permissible increases to the current budget.

8. Fight against faux fiscal discipline and resist the temptation to compromise on rule design. You are better off with no rule than a badly designed one.

9. Use a commission as a supplement to, not a replacement for, a budget rule. Commissions are great for specifics, but they can’t produce change without some other external pressure.

10. Incorporate well-designed rules into the U.S. Constitution. While there are pros and cons to constitutional rules, without this external enforcement, budget rules will always be vulnerable to legislators’ propensity to break them.

Major adjustments to the federal budget are necessary to stanch the increase in the federal debt and reduce the deficit without hurting the economy. Incremental steps in the budgetary arena have achieved little, and the United States needs more dramatic action. By implementing new budget rules today, legislators can help force hard decisions tomorrow. No budget rule will be perfect, and problems will undoubtedly arise from any rule enacted through the legislative process. Inaction, though, is simply not a reasonable option any longer. The U.S. states face their own set of daunting fiscal challenges, including pension obligations, and they would also benefit from following the steps outlined above.

Reprinted with the author’s permission. Dr. David M. Primo is an Associate Professor of Political Science and Business Administration at the University of Rochester and a Senior Scholar at the Mercatus Center at George Mason University. This is an excerpt from his study “Making Budget Rules Work,” 2014, <<http://mercatus.org/publication/making-budget-rules-work-0>>.

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Iowans Achieve Prosperity Through Private Property

By Deborah D. Thornton

We do not achieve prosperity through uncontrolled use of “eminent domain” to legally take people’s property from them. The book *The Noblest Triumph* by Tom Bethell lays out the development of private property rights. He provides convincing evidence that without the ability to own and use private property we would not have economic prosperity. The original wording of “life, liberty, and pursuit of happiness” from the Declaration of Independence was actually “life, liberty, and property.” When “power is decentralized and the rule of law” is clearly stated and enforced, prosperity follows.

Bethell observes that if private property laws come first and individuals can trust equal justice, they take claim to property, and then build their home and business on it, peacefully and in plain sight. This is what has happened in the U.S. In other countries, where there is no equal law or recognition of private property and those running the centralized government have a history of taking as they want, people first claim land by building a wall around it. They then hide inside, defending it as best they can. Finally, they build in secret, hiding their wealth. You do not want anyone, especially anyone with the “government,” to know what you have because they will come and take it by force.

In the U.S. we generally take legal ownership of a piece of property first, and then build what we want without fear of predatory confiscation. Unfortunately, the use of eminent domain to take land for not only “public” but “private” use – as best determined by the central government – is a real risk today. This will eventually destroy our liberty, justice, peace, and prosperity.

Two state Legislators, Bobby Kaufmann (R-Wilton) and Walt Rogers (R-Cedar Falls), have proposed legislation to address these concerns. One because of the taking of private farmland and homes ostensibly for public water supply, but in reality for a “recreational lake.” The other because a utility wants to put high-energy power lines through farms and homes in eastern Iowa, potentially splitting property and destroying homes. In both cases, the owners of the land must be allowed to control the property they legally purchased and developed. They must have the right to use it as they determine is best, not the utility and not the government. Iowans can expect economic prosperity only through the protection of private property rights. Without these rights we will have less “equality,” and less “justice.” Not more.