

IOWA ECONOMIC SCORECARD

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Partisanship Prevented Discussion of Looming Financial Crisis

By: Deborah D. Thornton

For the last two years, State Auditor David Vaudt (Republican) warned Iowa lawmakers that Iowa's fiscal practices would lead to a crisis in the near future. In a May 2008 press release, Vaudt warned of a spending gap of well over \$500 million that lawmakers will have to face in next year's legislative session. This spending gap was not the result of floods, and it was not the result of an economic downturn. Instead, it was the result of poor fiscal practices by the administrations of Governors Tom Vilsack (Democrat) and Chet Culver (Democrat) and the Legislature over the past six years – practices that worsened over the past two years.

Rather than heed the auditor's warning, the Director of the Department of Management responded by accusing the Auditor of "playing partisan politics." There are three problems with forwarding such an accusation.

First, the numbers are not partisan. Since Fiscal Year 2001, expenditures in Iowa have exceeded revenues available. Lawmakers accomplished this by shifting ongoing, general fund expenditures to other funds and accounts. This would be like paying your utility bill, which is an ongoing, monthly expenditure, with your credit card. In the past two years, Iowa lawmakers spent over \$360 million more per year than the state received in revenues. Now budgeting experts echo what Auditor Vaudt predicted earlier this year – next year's Legislature faces over \$500 million in new spending. Governor Culver and the Legislature had access to that information during the budgeting process. They responded with a "shoot the messenger" approach by ignoring the information and accusing the Auditor of partisanship. This did nothing to solve next year's problem.

The second problem with a partisanship accusation is the fact Auditor Vaudt's non-partisan approach is well documented. In his six years in office, Auditor Vaudt criticized the budget proposals of both parties. During this time, the state Senate was controlled by Democrats, but until the last two years, the Republicans controlled the House of Representatives. Press releases dating back to March 2003 were critical of both Republican and Democratic budget proposals. In fact, the *Des Moines Register* came to Auditor Vaudt's defense earlier this year by awarding a "thistle" to Speaker of the House Murphy for accusing the Auditor of having "partisan blinders."

The third problem with the partisanship accusation is it prevented a great opportunity to have a conversation about the fiscal health of our state during the legislative session. To the extent the Administration or the Legislature differed on the issues, a meaningful debate could have occurred. Whether the disagreement is regarding the clarity of the budgets, the efficacy of long-term fiscal planning, the merits of shifting general fund expenditures to non-general fund accounts, or the key components of a sustainable government,

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these issues deserved a full and transparent public debate. Baseless accusations of partisanship do nothing to educate Iowans about fiscal issues so they may be better constituents.

As an example of the problems with the legislative process, during the 2008 session, Iowa Legislators lacked complete information when they voted on Iowa's budget. Instead of releasing the entire budget for a complete review, legislative leaders released it a piece at a time. One could only speculate that this was done because an undisclosed budget cannot be criticized by members of the other party or by the voting public. Lawmakers who were not in the leadership group essentially voted blindly. These same lawmakers have a duty to the Iowans who elected them into office – a duty to be responsible stewards of taxpayer dollars. It was impossible to perform that duty because it was impossible to evaluate the merits of a budget they had no chance to review in its entirety. And this made it even more impossible for taxpayers to have confidence in the actions of their elected representatives.

How many Legislators would have voted for the budget if they were given the opportunity to look at the consequences of their decision? Would they have voted the same if they knew their votes would force the state to cut services at the time the people need them most? Would they have voted the same if they knew there would be a \$500 million shortfall the following year that would require at least 8% revenue growth to cover – an impossible number to achieve via natural economic growth in an economic downturn? Would they have voted the same if they knew they would be giving voters reduced services for higher taxes?

Accurate, timely, and transparent information is the key to a successful democracy. Lawmakers depend on it to make the right decisions for their constituents, and voters depend on it to hold their elected officials accountable. It is counterproductive to deprive voters and lawmakers of pertinent facts by discounting them as partisan. Such a tactic may be good politics, but it is not good policy. In no way could a discussion of issues have prevented a nationwide economic downturn or the unprecedented floods suffered by this state this year. However, the over \$500 million hole in next year's budget could have been minimized. With prudent fiscal management, Iowa would have been able to deliver a consistent level of service to its citizens as we weather this economic storm. Now, we will have to wait until January 2009 to see and hopefully be better informed on just how Governor Culver and the Legislature will solve the problems. As taxpaying citizens, it is our job to require more accountability and better stewardship of our limited resources.

Wall Street, Fascism, and the Death of Liberalism

By: Dr. Dennis E. Clayson

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The current problems with bailouts of banks and semi-private lending institutions have the Roosevelt era ideological dinosaurs up and crowing like roosters before the dawn of a glorious new socialist awakening.

Capitalist “greed” has brought the system low and is destroying the prosperity of the nation. This is the best news in the last 60 years if you are an avid leftist, and especially if you are of the “green” variety.

Whoa, boys! Roosevelt has not been resurrected and Marx will never again be raised from his slumber, but the ghost of Mussolini has been seen haunting the halls of Congress.

Free markets still work and still work better than anything ever devised in the world we actually live in. Notice the word “free.” Free markets can only exist under the rule of law.

We have been corrupting our own system as fast as possible to make a mockery of the rule of law. If no single human being can understand the tax code for a family, you can only imagine what the regulatory statutes look like for a large business.

We have made the rules of the marketplace almost arbitrary. Under such a system, any logically thinking person would try to control the chaos as much as possible. That means going to Washington and trying to modify the randomness in your own favor. The end result makes individuals and groups in Washington very powerful, very rich, and very corrupt. Their self-interest is actually advanced by confusion.

Think for a moment. If you are a scoundrel intent on making yourself very powerful and rich, where are you going to go? Are you going to Washington, which is the most concentrated center of money and power in the world, and make regulations that no one understands and which can be applied in almost any fashion? Or are you going into business and try to make it in Peoria?

And if you are a scoundrel in Peoria and you know that members of Congress and regulatory agents can be bought off, do you not also go to Washington? “Oh no!” say the leftists. “You go to Wall Street. The pure in heart go into politics and save the masses from their own worst instincts.”

Such naiveté should be illegal. Of the ten richest members of Congress, seven are Democrats. According to Roll Call, their family fortunes came from food, international industries, electronics, oil, stocks and bonds, automobiles, chemicals, and running illegal booze.

Our own Tom Harkin is number 27 on the list of millionaires. Other than marriage, how do you think these enemies of capitalism made their millions? Dishing out food in soup lines and handing out condoms to those over-reproducing? Their solution to the financial mess demonstrates what is wrong with Washington and voters who still buy into ideology that should have died out decades ago.

A little test for you: What type of economic system is characterized by the following? Its advocates tell us that prosperity would naturally follow if a nation achieved a cultural and spiritual re-awakening. Therefore, party leaders consider the economy to be of less importance than social issues and usually do

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Iowa's Monthly State Revenue:

Iowa's monthly state revenue for Fiscal Year 2009 stands at \$1,696.0 million as of September 30, 2008. For the fiscal year to date total gross cash receipts increased \$113 million (7.1 percent) compared to Fiscal Year 2008. Inheritance tax collections increased the most, by 19 percent.

Iowa's Estimated Net Yearly Revenue:

The Revenue Estimating Conference met in October and the estimate for FY2009 net General Fund receipts is now \$6,151.5 billion, an increase of only \$67 million compared to actual 2008.

Source: Legislative Fiscal Bureau, "Monthly Revenue Memo," Revenue Estimating Conference Report

Iowa's Unemployment:

The U.S. unemployment rate in September was 6.1 percent. Iowa workers continued to fare better with unemployment dropping to only 4.2 percent. This is up from 3.8 percent one year ago. Iowa's Workforce Development reported that total non-farm employment in September was just over 1.5 million, slightly down from the all time high of 1.526 million in August. Compared to last year, Iowa has added 6,200 jobs, in the categories of education, health services, government, and the leisure and hospitality areas. The number of workers estimated as unemployed was 71,000.

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

Consumer Confidence Index:

As of the September 2008 report, the Consumer Confidence Index (CCI) improved to 59.8, up from a record low of 51.0 in June 2008. In Iowa it was at 59.8, slightly down from 62.7 in August. The Conference Board reported that the September "expectation index" increased to 60.5 from 54.1 posted in August. However, overall assessments of business was "bad" and job conditions reported as "hard to get."

Source: Conference Board, "Consumer Confidence Survey."

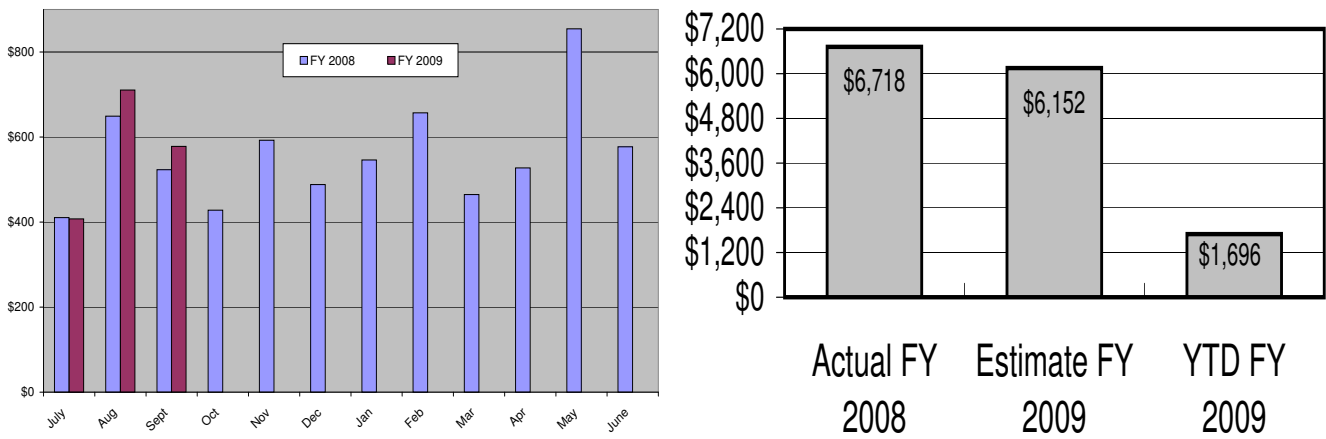
Consumer Price Index, Monthly Change:

The seasonally adjusted Consumer Price Index for urban consumers decreased slightly (-0.1) in September, following the same -0.1 drop in August. The energy index continued to fall, -3.1 percent in August and -1.9 percent in September. Gasoline is still 31.8 percent higher than in September 2007. Other indexes which decreased nationwide were apparel and airline fares and both new and used motor vehicles. These offset increases in lodging away from home, medical care, and rent.

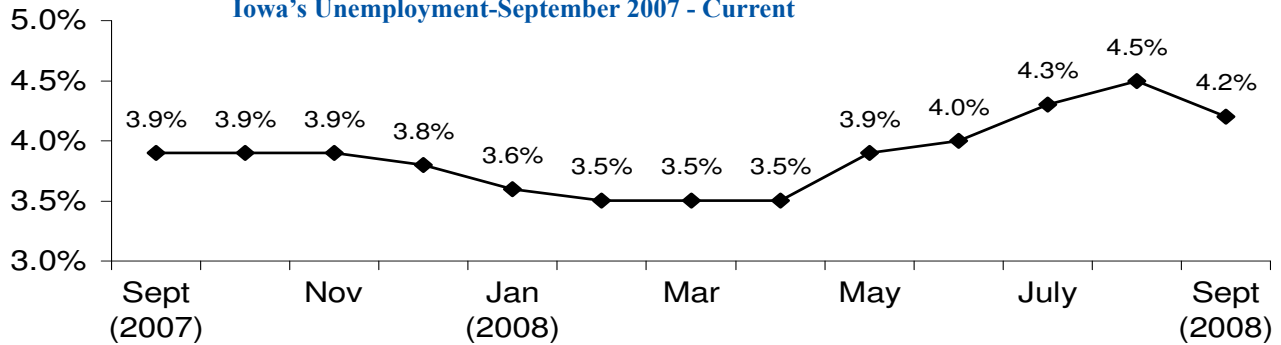
Source: U.S. Department of Labor, Bureau of Labor Statistics

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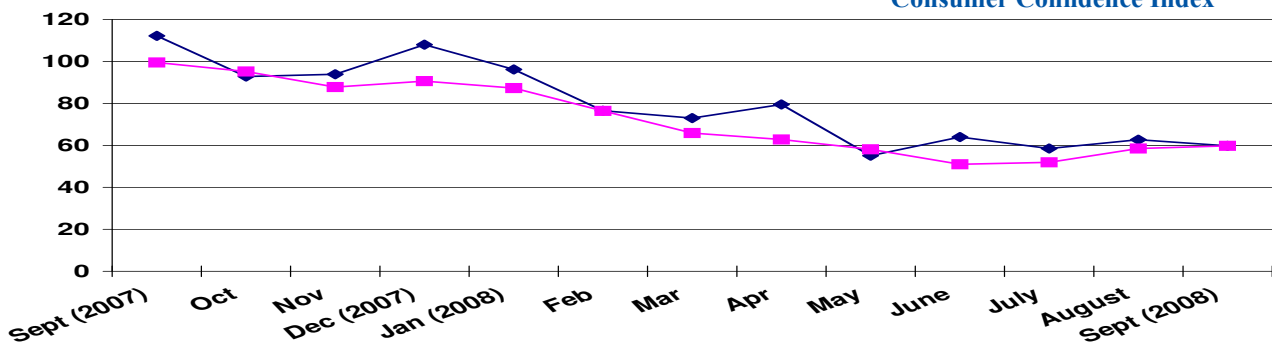
Iowa's Monthly State Revenue and Estimated Net Yearly Revenue (in millions)



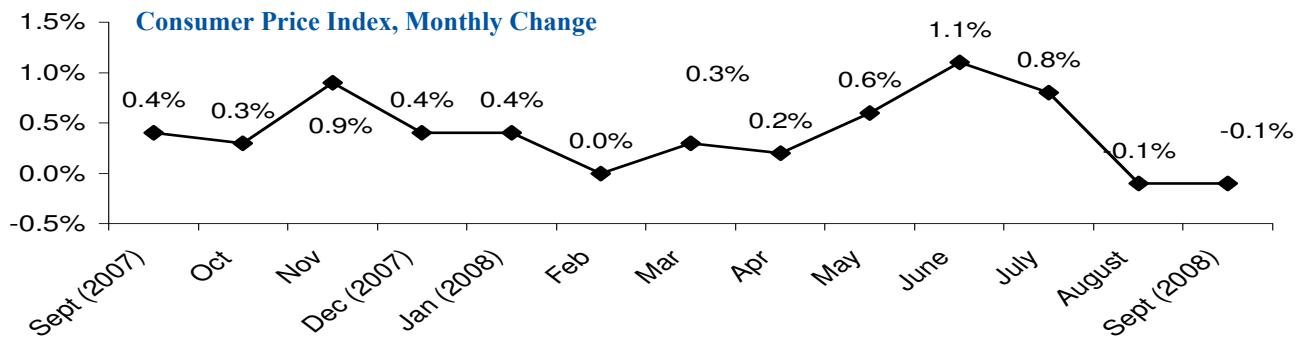
Iowa's Unemployment-September 2007 - Current














Consumer Confidence Index






Consumer Price Index, Monthly Change



CURRENT IOWA ECONOMIC INDICATORS

Iowa's Latest Economic Indicators	Updated as of:	Actual Number	Amount of Change	Time Period Reported
 New Vehicle Registrations	10/10/2008	82,083	-1.3%	Y-T-D Aug 07- Aug 08
 Housing Permits	9/26/2008	5,119	-32.8%	Y-T-D Aug 07- Aug 08
 Existing Home Sales	8/22/2008	51,600	-9.8%	1st Qtr - 2nd Qtr 08
 Total Resident Jobs	9/19/2008	1,605,600	400	July - Aug 2008
 Non-farm Employment	9/19/2008	1,526,400	2000	July - Aug 2008
 Factory Jobs	9/19/2008	228,000	0	July - Aug 2008
 Initial Unemployment Claims	9/12/2008	16,769	46.4%	Aug 07 - Aug 08
 Jobless Rate	9/19/2008	76,800	4.6%	Aug-08
 Personal Income per Capita	3/27/2008	\$35,023	7.0%	2006-2007
 Exports of Goods	7/15/2008	\$2,899,340	27.7%	1st Qtr 07 - 1st Qtr 08
 Farmland Values	9/5/2008	\$4,000	15.0%	July 07 - July 08

-  Change is Insignificant
-  Change is Negative
-  Change is Positive

Data from the Iowa Economy, Iowa Workforce Development News and Trends, <<http://www.iowaworkforce.org>> (October 17, 2008).

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not have clear economic views. Often, members of the political party make completely opposite statements about the economic policies they supported in the past. Once in power, they usually adopt whatever economic program is most suitable for political goals.

They argue that the state has a role in mediating economically between classes through affirmative action and other programs. In times of crisis (which is almost constant), they maintain that the government should exert strong directive influence, and effectively control production and allocation of resources. Private

REVENUE ESTIMATING CONFERENCE ESTIMATE OF GENERAL FUND RECEIPTS

REVENUE ESTIMATING CONFERENCE ESTIMATE OF GENERAL FUND RECEIPTS October 09, 2008

	FY 07 ACTUAL	FY 08 ACTUAL	% Change FY 08 Act vs. FY 07 Act	04/08 REC FY 09 ESTIMATE	% Change FY 09 Est vs. FY 08 Est	10/08 REC FY 09 ESTIMATE	% Change FY 09 Est vs. FY 08 Act	10/08 REC FY 10 ESTIMATE	% Change FY 10 Est vs. FY 09 Est
TAX RECEIPTS									
Personal Inc. Tax	3,085.9	3,359.7	8.9%	3,501.9	6.3%	3,452.8	2.8%	3,508.7	1.6%
Sales/Use Tax	1,910.1	2,000.2	4.7%	2,054.7	4.7%	2,458.5	22.9%	2,507.7	2.0%
Corporate Income Tax	424.6	483.8	13.9%	424.2	-5.1%	437.1	-9.7%	408.1	-6.6%
Inheritance Tax	76.0	78.4	3.2%	76.0	-9.1%	80.0	2.0%	80.0	0.0%
Insurance Premium Tax	105.2	111.7	6.2%	127.1	7.6%	114.5	2.5%	114.4	-0.1%
Cigarette Tax	122.0	229.5	88.1%	225.8	-3.2%	224.0	-2.4%	221.8	-1.0%
Tobacco Tax	12.1	21.2	75.2%	20.9	9.4%	22.1	4.2%	23.0	4.1%
Beer Tax	14.3	14.5	1.4%	14.5	-0.7%	14.6	0.7%	14.6	0.0%
Franchise Tax	33.3	37.6	12.9%	37.4	23.8%	32.2	-14.4%	29.1	-9.6%
Miscellaneous Tax	1.0	1.0	0.0%	1.0	0.0%	1.0	0.0%	1.0	0.0%
Total Tax Receipts	5,784.5	6,337.6	9.6%	6,483.5	4.5%	6,836.8	7.9%	6,908.4	1.0%
OTHER RECEIPTS									
Institutional Payments	12.9	14.9	15.5%	12.8	-0.8%	13.4	-10.1%	13.4	0.0%
Liquor Profits	64.8	72.4	11.7%	70.5	4.0%	74.6	3.0%	74.6	0.0%
Interest	28.7	25.3	-11.8%	19.0	-5.0%	12.0	-52.6%	11.5	-4.2%
Fees	84.7	82.1	-3.1%	77.7	6.1%	72.1	-12.2%	72.9	1.1%
Judicial Revenue	66.9	90.0	34.5%	90.8	1.5%	104.0	15.6%	106.1	2.0%
Miscellaneous Receipts	35.7	36.1	1.1%	37.8	4.4%	38.1	5.5%	37.2	-2.4%
Racing & Gaming	60.0	60.0	0.0%	60.0	0.0%	60.0	0.0%	60.0	0.0%
Total Other Receipts	353.7	380.8	7.7%	368.6	2.5%	374.2	-1.7%	375.7	0.4%
Total Gross Receipts	6,138.2	6,718.4	9.5%	6,852.1	4.4%	7,211.0	7.3%	7,284.1	1.0%
Accruals (net)	37.4	(24.0)	-164.2%	1.2	-107.1%	14.9	-162.1%	18.6	24.8%
Refunds	(597.9)	(674.8)	12.9%	(724.0)	14.4%	(731.0)	8.3%	(788.0)	7.8%
School Infrastructure Transfer				0.0		(405.0)		(416.0)	
Total General Fund Receipts	5,577.7	6,019.6	7.9%	6,129.3	3.7%	6,089.9	1.2%	6,098.7	0.1%
Transfers									
Lottery	59.3	55.3	-6.7%	57.9	2.8%	57.0	3.1%	58.1	1.9%
Other Transfers	9.3	9.6	3.2%	1.9	-86.3%	4.6	-52.1%	1.6	-65.2%
Total Transfers	68.6	64.9	-5.4%	59.8	-14.8%	61.6	-5.1%	59.7	-3.1%
Net General Fund Revenues	5,646.3	6,084.5	7.8%	6,189.1	3.4%	6,151.5	1.1%	6,158.4	0.1%
Estimated Gambling Revenues Transferred To Other Funds	208.7	220.7	5.7%	221.4	0.3%	221.4	0.3%	222.0	0.3%

Source: Iowa Department of Management, Revenue Estimating Conference

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property and private initiative should be maintained, but these should be contingent upon service to the nation. What you just read is a definition of fascism.

One last little test: Who complained, "The State pays for the blunders of private enterprise... Profit is private and individual. Loss is public and social." That was an Italian historian, Gaetano Salvemini, writing of fascism in 1936. Jonah Goldberg argues in his 2007 book that fascism has been resurrected by modern liberalism. He also maintains that even the more sinister elements of fascism, including racial and class warfare and eugenics are seeing resurgence.

Current events do nothing to invalidate his arguments.

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Question of the Quarter:

Do you agree or disagree with the Federal Government “bailouts” of the financial system?
What is the proper role of the Federal Government in this economic situation?
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