



Iowa House of Representatives
Public Hearing on HF45
January 18, 2011

www.iowafiscal.org

Testimony of Peter Fisher, Research Director, Iowa Policy Project

My name is Peter Fisher, and I am research director of the Iowa Policy Project, a nonprofit, nonpartisan think tank in Iowa City. I am also Professor Emeritus at the University of Iowa. My purpose tonight is to provide some important context for the current debate over the Iowa budget. Contrary to what many people have asserted, Iowa taxes its residents and its businesses at a lower level than the average state in the U.S. Furthermore, the size of state government, if measured by employment, has actually fallen, and state spending represents a smaller share of the state economy now than at any time since at least 1990.

The state has cut important public services for two years in a row in response to declining revenues brought about by the recession. The case for further cuts to this year's budget, and more cuts next year and the year after, has been premised on assertions that state government has grown too much, that spending is "out of control," or that taxes are too high or uncompetitive. The evidence does not support such claims.

Throughout the 1990s, state general fund spending remained between 6.1 and 6.4 percent of state personal income. In other words, as the economy grew — more people, more economic activity, more incomes — state government grew along with it, as one would expect, but the state accounted for about the same share of the economy. But since 2001, the state general fund has actually shrunk as a share of the economy, remaining between 5.0 and 5.4 percent from 2003 through 2009 before dipping to just 4.7 percent last year.¹

Another measure of the size of government is the number of state employees. There has been no discernible growth in state employment since 1993, the total fluctuating around 52,000 to 54,000. At the same time, there has been modest population growth. Thus a better measure of the size of government is the number of state employees per thousand Iowans; this number peaked at 19.6 in 1997 and then fell to about 18 for most of the past decade, until budget cuts pushed it down further to 17.4 in 2009.² State government has shrunk.

Finally, the tax argument. Iowa state and local governments together have taxed their citizens at a lower rate than the average for the past several years. In the early 1990s, state and local taxes represented 11.5 percent of personal income in the state, which put Iowa 12th among the 50 states. By fiscal year 2008, Iowa's taxes had fallen to 10.4 percent of income, a 9 percent drop. We now rank 26th. [See Addendum.]

There have also been claims that our business tax system is uncompetitive. This is simply false. A recent study by Ernst and Young found that overall taxes on business in Iowa are lower than the national average, and in fact only 15 states tax business more lightly.³ The case for cutting public services to finance tax cuts for business cannot be sustained.

We should be having a debate about budget priorities founded on facts. The reality of the past 20 years is smaller state government, lower taxes overall, and quite competitive taxes on business.

The Iowa Policy Project

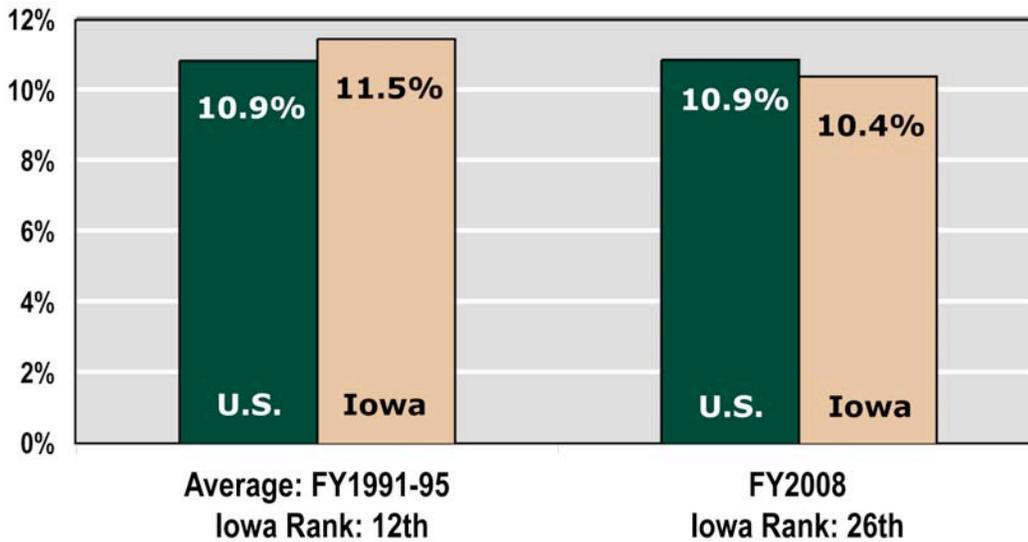
20 E. Market Street
Iowa City, IA 52245
(319) 338-0773 • www.iowapolicyproject.org

CHILD & FAMILY POLICY CENTER

505 5th Avenue • Suite 404
Des Moines, IA 50309
(515) 280-9027 • www.cfpciowa.org

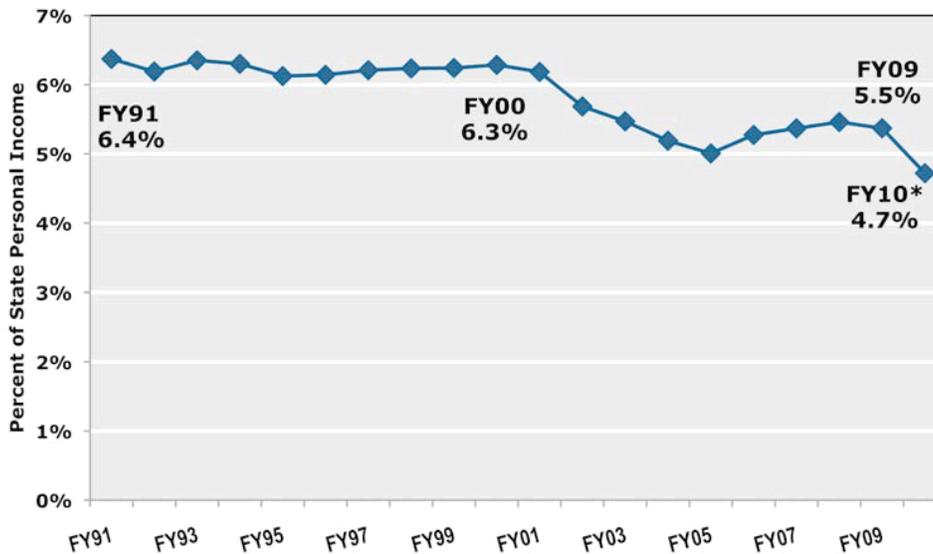
Addendum: Graphs

Total State and Local Taxes a Smaller Percent of Personal Income Now than in the early 1990s; Iowa Taxes Now Lower than Average



Source: Iowa Policy Project analysis of data from the U.S. Census, Annual State and Local Government Finances Statistics, historical data, and FY2008 data at <http://www.census.gov/govs/estimate/>. Personal income from Bureau of Economic Analysis, Dec. 2010, at: <http://www.bea.gov/regional/sqpi/default.cfm?selTable=SQ1>

State General Fund Spending has Decreased as a Percent of Personal Income



Source: Andrew Cannon, *Getting Public Value Out of Our Public Dollars*. Policy Brief, October 7, 2010; the Iowa Policy Project. Available at: <http://www.iowapolicyproject.org/2010docs/101006-IFP-PublicValue.pdf>

¹ Andrew Cannon, *Getting Public Value Out of Our Public Dollars*. Policy Brief, October 7, 2010; the Iowa Policy Project, Figure 1, p. 2.

² Cannon, Figure 3, p. 4.

³ Ernst and Young for the Council on State Taxation: *Total state and local business taxes: State-by-state estimates for fiscal year 2009*. March 1, 2010.