



# The Center Square

## Spending, debt and tax increases threaten economy

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In a recent interview with Tax Education Foundation of Iowa, Dr. Ernie Goss, Professor of Economics at Creighton University, discussed current issues and economic trends for both Iowa and the nation. Goss noted that Iowa's economy "is still about three or four percent below pre-pandemic levels" but is on the road to recovery. Although both Iowa's and the national economy are recovering from the COVID-19 triggered recession, the recovery is being threatened by out-of-control spending and potential tax increases. President Joe Biden in his first 100 days in office has proposed \$6 trillion in new spending and a series of proposed tax increases all will be detrimental to the economy.

Iowa's economy has weathered the pandemic, and, at this time, state revenues continue to grow, but challenges remain. A significant economic concern for Iowa is the need for workers to fill jobs. Goss mentioned that the "inability to find quality workers" is still a major problem for Iowa's economy. Goss stated that federal policies such as the additional \$300 unemployment compensation offered by the federal government deter people from going back to work. As an example, the federal government provides an additional \$300 on top of unemployment benefits, which Goss said, "discourages people from working."

Since the start of the COVID-19 pandemic, Goss stated that the federal government has spent \$8 trillion, not including actions taken by the Federal Reserve, on stimulus measures. Goss also mentioned that the \$1.9 trillion American Rescue Plan, which provides \$350 billion in state and local government aid, is biased toward progressive high tax and spending "blue states" than fiscally conservative red states, such as Iowa. Governor Kim Reynolds and the Republican-led legislature have been practicing fiscal conservatism by keeping spending under control and

lowering tax rates, which strengthened Iowa's economy and ensured that our fiscal house was in sound order for an emergency such as the COVID-19 pandemic. Governor Reynolds even received a "A" grade from the CATO Institute's for her fiscal conservatism.

The \$350 billion allocated to states has also created uncertainty because the American Rescue Plan prevents states from reducing tax rates. This is creating problems because states are waiting on clarification from Secretary of the Treasury Janet Yellen, who is supposed to be providing guidance on the law. In asking Goss about whether the federal government could prevent states from reducing taxes, he argued that although he is not a constitutional lawyer, it is "clearly a violation of the Constitution in my judgment."

Goss is correct, and many states, including Iowa, are challenging the American Rescue Plan in court. Tax competitiveness is another issue of concern for Goss. He noted that states such as Iowa and Nebraska tend to have a larger property tax burden than other parts of the country. Regardless of the tax, high tax rates, discourage economic growth and deter business and people away from Iowa.

Biden has also proposed the \$2.3 trillion American Jobs Plan targeted at infrastructure. Goss was skeptical of the American Jobs Plan. He reminded us of past stimulus measures, such as President Barack Obama's "shovel ready" stimulus, which turned out to be more of a boon for state and local governments and other special interests. The Administration is also proposing a trillion-dollar stimulus plan directed at childcare and family-related policies referred to as "human infrastructure."

President Biden has proposed tax increases to help pay for this massive amount of new spending. Goss warned that "tax increases will not pay for the spending," and the resulting increases in the national debt could result in "high inflation, high interest rates, and higher taxes." Goss commented on signs of increased inflation with prices rising, increasing commodity prices, and building costs going sky-high. The high cost of lumber is just one example.

Goss was also worried that President Biden's proposed corporate tax increase would make the United States less competitive. President Biden is calling to increase the corporate tax rate from

the current rate of 21 percent to 28 percent. Goss stressed that this rate, combined with state corporate tax rates, will not only result in higher tax rates but places the United States in an “uncompetitive position.” Goss also said the idea that “you can tax, and tax, and tax” and it will only fall on high-income earners is not valid.

President Biden is not only proposing to increase the corporate income tax rate, but he is also calling for the capital gains tax to be increased to 43.4 percent. The Administration is also considering raising the top individual income tax rate from 37 percent to 39.6 percent. President Biden’s proposed tax increases will not only punish taxpayers and businesses, but it will destroy the economic recovery. Unfortunately, President Biden and the Democrats do not understand that government cannot tax and spend its way to prosperity.

In responding to a question in what policymakers should be doing in terms of economic policy, Goss states that Iowa needs to “take steps that will make your tax system and regulatory system more competitive.” “We have to think about competition,” stated Goss, and he referenced that both businesses and people are more mobile, and tax and regulatory climates will impact the state’s competitiveness. “Iowa needs to be more tax competitive,” stated Goss, especially when our neighbors in Missouri and South Dakota have better tax climates.

It is vital for Iowa to continue to improve the tax and regulatory climate. Many states are reducing tax rates and even looking for ways to phase-out the income tax. Iowa should not become complacent in terms of reducing the tax burden. Governor Reynolds and the Republican legislature should continue to find prudent ways to continue to lower both individual and corporate income tax rates. This also includes finding a solution for property tax relief by considering a Utah-style Truth-in-Taxation law.

Following a policy of fiscal conservatism of limited spending, low taxes, and unshackling businesses from unnecessary regulations is the best path to economic prosperity.