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## Economic freedom in Iowa addressed

By Laura Keith

**The National Center for Policy Analysis** just released its 2005 Economic Freedom report on North America, an analysis that includes American states and Canadian provinces.

The report focuses on variables in three areas: size of government, takings and discriminatory taxation, and labor market freedom. These factors are effective in three ways: Bigger government equals less market control, more taxation equals a diminished amount of capital available to foster growth, and restrictions on labor markets hinder creation of the best conditions for both workers and employers, including pay. Simply put, these combined factors affect the level of economic freedom in a state, and thus its ability to prosper.

Iowa ranks 23rd out of 50 states on the 2005 Economic Freedom report. Our regional competitors rank above Iowa with the exception of Minnesota. According to the index, Iowa showed improvement from last year in freeing up its labor to work better with today's more mobile labor market, especially when compared on a scale that includes Canadian provinces. Nationally, Iowa was stable in the size and taxation areas, but those rankings kept us out of the top tier for economic freedom.

The steps to more economic freedom in Iowa, which leads to higher economic growth, include cutting taxes, using tax revenue efficiently and shrinking

government. Outside of cleaning house, so to speak, there is another interesting opportunity. The agricultural sector of Iowa's economy is just as important as the labor sector that receives particular attention in this report. Because the agriculture sector is affected by taxes and government regulation, freeing this sector from regulations and its dependence on subsidies is akin to creating a more flexible labor force not dependent on welfare. One option is to focus on free trade with Central America and the Dominican Republic.

The Central American Free Trade Agreement (CAFTA) not only works with large manufacturers, but small businesses and farmers, who are the backbone of Iowa's economy.

The main push of CAFTA is to reduce or eliminate tariffs on trade between the US and Central American states. The National Taxpayers Union says it best: "Since tariffs are nothing more than taxes on consumers, reducing these levies as the agreement stipulates will lead to even more trade between regions, faster economic growth and higher standards of living both at home and in the six CAFTA nations."

Efforts to increase Iowa's international trade base are in line with other states in the nation. The trend shows up in places other than legislation. For example, the Governor and officials from the Iowa Department of Economic Development visited China in May

2005 to "seek new investments, promote export expansion between Iowa and China," and build relations.

While expanding ties to China is important to grasp a foothold in its growing markets, CAFTA ensures that its member countries will comply with the labor standards of the International Labor Organization. It will also enable its nations to "maintain and raise their domestic standards," including environmental and social concerns. These facts dispute any claims made about the agreement as a "race to the bottom" for all countries involved.

The ratifying of CAFTA will assist U.S. economic growth, pulling Iowa along with it. Initiating similar free trade agreements among the states, such as cutting regulation that drains resources, cutting taxes and giving other states leeway in the same way we are willing to do with foreign nations to spur more trade and growth, is an effective option to raising Iowa from a mediocre 23rd to a stellar first place in economic freedom among the states. Standing at the top of this list indicates an economic winner.

The views expressed in this column are those of the author and not necessarily those of Public Interest Institute. They are brought to you in the interest of a better-informed citizenry.

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