



# THE COST OF CUTS IN IOWA

Budget Cuts Hurt Families, Communities, and the Economy

## INTRODUCTION

In 2008, the United States experienced a severe financial crisis, the result of increasingly risky practices among the country's large financial institutions and the deregulation that allowed these practices to flourish.

The resulting Great Recession unleashed widespread economic insecurity and deepened existing economic inequalities. It also caused revenue shortfalls that Iowa lawmakers chose to close through budget cuts rather than requiring corporations and the rich to share the sacrifice.

Iowa's investments in health, education, and other human and physical infrastructure form the basis for families' ability to participate in the economy and contribute to prosperity. These investments are especially important now, with continued high unemployment, a shattered housing market, and demand lagging for small businesses.

Instead of raising adequate revenue, Iowa lawmakers have asked lower-income people to sacrifice the most, while pushing for tax breaks and subsidies for those who don't need them. This decision has resulted not only in disinvestment in health, education, environmental protections, and other vital services but also harmed our economy on the short and long-terms as well.

This report shows that state budget cuts implemented by Iowa lawmakers have cost Iowans jobs when jobs are needed most. It should remind our lawmakers that the cost of budget cuts is too high — and that it's time to raise revenue instead, by making corporations pay their fair share.



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## GROWING ECONOMIC INEQUITY AND THE GREAT RECESSION

A spike in economic inequality preceded the Great Recession. By 2007, the country's top 10 percent of earners controlled 50 percent of total income, exceeding even the concentration of income in the late 1920s.<sup>1</sup> Such growing inequality and stagnation reduced the cushion that could have helped families make it through the downturn.

The Great Recession caused the biggest job loss of any postwar economic downturn, with high unemployment persisting.<sup>2</sup> As of 2009, foreclosures were projected to cost 92 million neighboring homeowners across the country an average \$20,300 in property value loss over the 2009 to 2012 period, with a total national loss estimated at \$1.86 trillion.<sup>3</sup>

The recession has hit communities of color especially hard. From 2007 to 2009, Black and Latino borrowers, respectively, were 76 and 71 percent more likely than whites to experience foreclosure.<sup>4</sup> Income loss for the median African American family was double that for white families — a 4.4 percent versus 1.6 percent decline in real median income.<sup>5</sup>

Across the country, state lawmakers have chosen cuts over raising revenue, and Iowa is no exception. Last year, Gov. Terry Branstad vetoed a bipartisan tax cut for 240,000 families earning less than \$45,000 a year.<sup>6</sup> The Branstad administration also closed local workforce offices that help unemployed Iowans find work, despite the passage of bi-partisan legislation to keep the offices open.<sup>7</sup>

And a radical proposal — a priority of Gov. Brandstad's administration this legislative session — would amount to a huge property tax cut for industries and corporations. It would also limit city and county governments' ability to pay for essential public services through revenue. The cost of this proposal is enormous, as it would result in cuts to police and fire security, libraries, road maintenance, and safety inspections.<sup>8</sup>

Meanwhile, Iowa's tax system lets the state's wealthiest residents off the hook for contributing to a prosperous economy from which all can benefit. As of 2009, the poorest families in the state paid the greatest portion of their income toward state and local taxes, at 11 percent, after federal offsets. Meanwhile, the top 1 percent of Iowa income-earners, who make an average of \$989,200, paid just 6 percent.<sup>9</sup> By choosing the path of divestment over equitably raising revenue, state lawmakers are compounding economic inequality in the state.

## THE RIPPLE EFFECT OF BUDGET CUTS

Cuts to state budgets ripple throughout the economy. Public sector workers who lose their jobs, experience furlough, or have their wages frozen have less discretionary income to spend at local businesses. The same is true with individuals who have their benefits cut or businesses that lose income from government contracts.

The cuts are then felt by Main Street and others businesses that suffer from suppressed demand and consumption. With fewer customers and less revenue, these businesses refrain from hiring new workers, or they have to cut employees or their hours. In other words, the decline in public spending ripples in the private sector and harms economic activity and jobs.

## METHODOLOGY

This report uses a linear regression analysis to compare expenditure and unemployment data in Iowa. The data, which focuses on general fund spending, is taken from the National Association of State Budget Officers' annual expenditure report. This data has been controlled for both population and inflation.

The regression analysis, using a six-month time lag, shows the impact of changes in state general fund spending on unemployment. Specifically, the variables we compare are percent changes in year-to-year, inflation-adjusted, per capita general fund spending with the percent changes in the year-to-year unemployment rate.

## THE COST IN JOBS

Iowa lawmakers have cut spending by 15 percent per capita since 2009, and 27 percent since 2001. This reduction has hurt the employment picture in Iowa. The impact is large, with a 1 percent cut in state spending associated with 580 lost jobs.

Communities of color have been particularly hard-hit by the decline of the job market, as seen in the U.S. Bureau of Labor Statistics' 2010 unemployment figures. At 13.2 and 10.8, respectively, African Americans and Latinos in Illinois have significantly higher unemployment rates than whites, at 5.8, and the state average, at 6.1.

## RECOMMENDATIONS

The answer to our economic difficulties is not more budget cuts. This disinvestment in schools, health care, infrastructure, public institutions, and environmental protection is taking a toll on families and communities. It is also harming the economy and the job market.

Iowa lawmakers should reverse this course of disinvestment and commit to building a prosperous future for all Iowa's families, including a robust job market that supports Main Street businesses and overall community development. Lawmakers should:

- Develop a stronger, more equitable tax systems that demands adequate contributions from corporations and the rich.
- Promote economic and racial equity by preserving public investments and public sector jobs.
- Close corporate tax loopholes, particularly to offset the harm caused by the potential passage of Gov. Branstad's proposal to gut property tax revenue. Legislators should not leave cities and counties with gaping holes in their budgets and remove the ability to offset these losses, thus harming the delivery of vital public services like police and fire protection and road maintenance.



Jobs lost with  
1% spending cut

**580**

Unemployment  
by race

**White: 5.8**

**Black: 13.2**

**Latino: 10.8**

**Total: 6.1**

## ENDNOTES

- 1** Emmanuel Saez, "Striking it Richer: The Evolution of Top Incomes in the United States (Update with 2007 estimates)," August 5, 2009, viewed at: <http://elsa.berkeley.edu/~saez/saez-UStopincomes-2007.pdf>, Figure 1.
- 2** Rebecca Thiess, "The Great Recession's Long Tail: Third Anniversary Underscores Severity of Labor Market Woes," Economic Policy Institute, Briefing Paper #294, February 2, 2011, viewed at: <http://www.epi.org/publications/entry/6708/>, p. 2.
- 3** Center For Responsible Lending, "Soaring Spillover: Accelerating Foreclosures Cost Neighbors \$502 Billion in 2009 Alone; 69.5 Million Homes Lose \$7,200 on Average, Over Next Four Years, 91.5 Million Families to Lose \$1.9 Trillion in Home Value; \$20,300 on Average," May 2009. Available at <http://www.responsiblelending.org/mortgage-lending/research-analysis/soaring-spillover-3-09.pdf>
- 4** Debbie Gruenstein Bocian, Wei Li, & Keith S. Ernst, "Foreclosures by Race and Ethnicity: The Demographics of a Crisis," Center for Responsible Lending, June 18, 2010, p. 8.
- 5** "Income, Poverty, and Health Insurance Coverage in the United States: 2009," U.S. Census Bureau, September 2009, viewed at: <http://www.census.gov/prod/2010pubs/p60-238.pdf>, p. 8.
- 6** "Gov. Branstad vetoes tax cut for working families AGAIN," Iowa State Democrats, July 28, 2011, viewed at: <http://www.senate.iowa.gov/democrats/gov-branstad-vetoes-tax-cut-for-working-families-again/>.
- 7** "Governor Branstad's shutdown already underway when it comes to helping unemployed Iowans," Iowa State Democrats, June 28, 2011, viewed at: <http://www.senate.iowa.gov/democrats/branstads-shutdown-unemployed-iowans/>.
- 8** "Commercial property tax plans stir opposition in Iowa," De Moines Register, Feb. 2, 2012, viewed at: <http://www.desmoinesregister.com/article/20120203/NEWS09/302030029/-1/TEXTALERT/Commercial-property-tax-plans-stir-opposition-iowa>.
- 9** "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," The Institute on Taxation and Economic Policy, 3rd Edition, 2009, viewed at: <http://www.itepnet.org/whopays3.pdf>, p. 46.