Lew Says “Be a Patriot, Pay More Taxes” Support Government, Not Shareholders

Last month, Jack Lew, sounding more like a Sunday school teacher than the U.S. Secretary of Treasury called on U.S. corporations to be patriotic, and reject the corporate tactic labeled “inversion.” Using this legal device, U.S.-based, multinational companies can slice their tax bills by merging with a foreign company and reorganizing in a country with a lower tax rate. For example, many U.S. corporations can reorganize in Great Britain and cut their income tax burdens in half. Instead of pleading for corporations to financially support the government at the expense of shareholders, U.S. policymakers should undertake two steps. First, allow U.S. corporations to repatriate foreign earnings at a competitive tax rate. A recent analysis by the Wall Street Journal concluded that 60 large corporations, to avoid pay-ing U.S. corporate taxes, are parking over $160 billion of income overseas. Thus, shrinking the U.S. corporate tax rate to 20% on repatriated earnings could potentially raise $32 billion in taxes. Second, the U.S. should decrease the tax rate on domestic earnings to 25% and chop deductions/subsidies to favored businesses. In 2013 for example, Walmart experienced a combined state and local income tax rate of 40% and Exxon-Mobil paid a combined tax rate of 42.7%. On the other hand General Electric and U.S. Geothermal, taking advantage of various federal energy subsidies, braved income tax rates of 5.1% and 0.0%, respectively. Commenting on inversion, President Obama, the former constitutional lawyer turned legal vigilante declared that, “I don’t care if its legal, it’s wrong.” The President should lower the rhetoric, cut the corporate tax rate, and reduce deductions/subsidies. These actions would encourage corporations to do what is legal, ethical, and consistent with U.S. economic interests. Ernie Goss.

MAINSTREET RESULTS

Rural Mainstreet Index Weakens in July: One-Third of Bankers Indicate Corn Prices Below Breakeven

Tables 1 below summarizes the findings from this month’s survey with an index above 50.0 indicating growth and an index below 50.0 signifying weakness. [Index > 50.0 indicates expansion]

Table 1: The Mainstreet Economy

<table>
<thead>
<tr>
<th>Table 1: The Mainstreet Economy</th>
<th>July 2013</th>
<th>June 2014</th>
<th>July 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area Economic Index</td>
<td>57.3</td>
<td>53.6</td>
<td>51.8</td>
</tr>
<tr>
<td>Loan volume</td>
<td>75.7</td>
<td>74.6</td>
<td>79.8</td>
</tr>
<tr>
<td>Checking deposits</td>
<td>53.7</td>
<td>50.9</td>
<td>53.5</td>
</tr>
<tr>
<td>Certificate of deposits</td>
<td>42.0</td>
<td>39.4</td>
<td>37.8</td>
</tr>
<tr>
<td>Farm land prices</td>
<td>58.2</td>
<td>49.1</td>
<td>48.3</td>
</tr>
<tr>
<td>Farm equipment area sales</td>
<td>50.0</td>
<td>35.0</td>
<td>33.4</td>
</tr>
<tr>
<td>Home sales</td>
<td>76.6</td>
<td>66.1</td>
<td>64.1</td>
</tr>
<tr>
<td>Hiring in the area</td>
<td>60.7</td>
<td>63.2</td>
<td>59.7</td>
</tr>
<tr>
<td>Retail Business</td>
<td>53.1</td>
<td>51.8</td>
<td>55.4</td>
</tr>
<tr>
<td>Economy 6 months from now</td>
<td>56.6</td>
<td>55.5</td>
<td>42.9</td>
</tr>
</tbody>
</table>

Survey Results at a Glance:
- Rural Mainstreet Index falls for second straight month.

- Farmland prices decline for eighth straight month as the rate of decline quickens.
- Almost one-third of bankers reported that current crop prices are below farmers’ breakeven.
- Over the past year, agriculture lending is up on average 7.1 percent among regional bankers.
- Four in ten bankers expect loan defaults to climb if crop prices remain at current levels.

Rural Mainstreet Economy January ’11 – July ’14

After moving below growth neutral in February, the Rural Mainstreet economy has moved above the 50.0 threshold for five straight months, according to the July survey of bank CEOs in a 10-state area. However, the index has been trending lower since June 2013 when the reading stood at 60.5.

Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, with 50.0 representing growth neutral, fell to 51.8 from June’s 53.6.

Agriculture commodity prices have plummeted for farmers in our region. The drop has slowed growth in the region according to our survey with prices below breakeven for a significant share of agriculture producers. I expect readings to move even lower as these lower prices spill over into the broader economy in the weeks and months ahead.

Farming and ranching: The farmland and ranchland-price index for July slumped to 48.3 from June’s weak 49.1. Much weaker crop prices are definitely taking some of the air out of agriculture land prices. At this point in time, land prices appear to be moving gradually lower without significant volatility. The July farm-equipment sales index slumped to 33.4 from June’s very weak 35.0. The index has been below growth neutral for 13 straight months. Farmers have certainly become more cautious in their purchase of both additional land and equipment. This is having negative impacts on implement dealers across the region.

According to a large share of bankers, crop prices, including corn, are close to or below the breakeven price for farmers. Approximately, one-third of bankers, or 31.6 percent, reported that current crop prices are below farmers’ breakeven price. But as reported by Scott Tewksbury, president of Heartland State Bank in Edgeley, N.D., current spot prices for corn in his area are below $3.00 per bushel and well below the cost of production.

As a result, more than four in 10 bankers, or 40.3 percent, expect loan defaults to climb in the year ahead if crop prices remain at current levels. However, previous strong farm economic conditions are expected to soften the impact of
declined to 51.3 from 54.8 in June. Colorado’s hiring index for its Rural Mainstreet Index (RMI) remained above the national level at 53.5 from June’s 50.9, while the index for certificates of deposit and other savings instruments dipped to 37.8 from 39.4 last month.

We have been tracking upturns in agriculture lending among bankers. This month bankers reported, on average, a 7.1 percent increase in agriculture lending over the past year. Lending is likely to continue expanding as a result of low crop commodity prices.

Hiring: Rural Mainstreet businesses continue to hire at a solid pace, though the July hiring index declined to a healthy 79.7 from June’s 82.6. Despite weaker conditions in the crop farming sector, businesses in the Rural Mainstreet economy are adding jobs at a very healthy rate and well above the pace in urban areas of the region.

Confidence: The confidence index, which reflects expectations for the economy six months out, plummeted from 42.9 from last month 55.5. Much weaker agriculture commodity negatively affected the outlook of bank CEOs and more than offset an improving outlook for livestock producers.

Home and retail sales: The July home-sales index dipped to a still healthy 64.1 from 66.1 in June. The July retail-sales index increased to 55.4 from 51.8 in June. Strong growth in home and retail sales contrasts to weaker growth at the national level in both areas.

Each month, community bank presidents and CEOs in 41 of 50 states, as well as small, community banks in rural, agriculturally and energy-dependent portions of the nation submit their monthly business conditions survey to the University of Nebraska-Lincoln Center for Economic Development. The survey is supported by a grant from Security State Bank in Ansley, Neb.

The information is distributed to bank presidents and CEOs to help them make sound economic decisions for their customers. The data is used to identify trends in key economic indicators, and to develop strategies and plans to promote business growth and economic development.

**COLORADO**

Colorado’s Rural Mainstreet Index (RMI) remained above the national level for the fifth straight month, though it dipped to 51.3 from June’s 54.4. The farmland and ranchland-price index declined to 51.3 from 54.8 in June. Colorado's hiring index for July decreased to a healthy 61.9 from 67.3 in May.

**ILLINOIS**

After increasing for three straight months Illinois’ RMI fell, moving to 51.8 from June’s 53.9. The Illinois farmland-price index sank to 41.0 from 46.6 in June. The state’s new-hiring index fell to 52.6 from June’s 60.8. Dirk Meminger, CEO of Sauk Valley Bank in Sterling, said, “We anticipate some carry over debt in the near term for many of our ag borrowers. It will be important that regulators remain calm as production prices adjust to current revenue levels.”

**IOWA**

The July RMI for Iowa fell to 52.9 from June’s 56.8. The state’s farmland-price index for July slumped to 48.0 from June’s 57.8. Iowa’s new-hiring index for July declined to a healthy 62.3 from June’s 73.5.

**KANSAS**

The Kansas RMI for July slipped to 52.0 from June’s 54.4. The farmland-price index for July fell to 50.9 from June’s 54.7. The state’s new-hiring index fell to a healthy 61.6 from 67.3 in June.

**MINNESOTA**

The RMI for Minnesota dipped to 50.5 from June’s 54.3. Minnesota’s farmland-price index for July declined to 50.8 from 53.6 in June. The new-hiring index for the state decreased to 67.6 from June’s 69.1. Pete Haddeland, CEO of the First National Bank in Mahnomen, said, “Our crops are looking better but a very wet spring” Also emphasizing some negative impacts from weather, Bryan Grove, CEO of American state Bank of Glynda said, “Wet conditions in our area of northwest Minnesota have adversely affected crops. Crop conditions are variable and first crop hay has been a challenge to put up.”

**MISSOURI**

The July RMI for Missouri sank to 50.7 from June’s 55.9. The farmland-price index for July fell to 48.2 from June’s much stronger 57.8. Missouri’s new-hiring index declined to a still solid 55.6 from June’s 62.3.

**NEBRASKA**

The Nebraska RMI for June fell to 53.7 from May’s 55.3. The state’s Nebraska RMI for July fell to 51.8 from 53.7 in June. The state’s farmland-price index for July sank to 43.9 from 41.3 in June. Nebraska’s new-hiring index decreased to 52.3 from June’s 56.5.

**NORTH DAKOTA**

The North Dakota RMI for July dipped to 53.0 from June’s 56.6. The farmland-price index rose to 62.3 from June’s 61.1. North Dakota’s new-hiring index jumped to 85.1 from June’s 84.4.

**SOUTH DAKOTA**

The July RMI for South Dakota slipped to 52.1 from June’s 56.2. The farmland-price index for July jumped to 48.4 from last month’s 46.4. South Dakota’s new-hiring index declined to 54.6 from 60.6 in June.

**WYOMING**

The July RMI for Wyoming sank to 52.2 from June’s 54.2. The July farmland and ranchland-price index expanded to 53.5 from June’s 47.5. Wyoming’s new-hiring index for July advanced to 63.7 from June’s 60.8.