Taxing the Rich More Heavily Is Not Fair to the Poor

It is argued by the Obama Administration that higher income individuals are not paying their fair share of income taxes. They contend that raising tax rates for higher income individuals will not only produce a fairer taxing system, it will move the U.S. to a more equitable income distribution. In 1996, taxpayers earning more than $200,000 paid an average tax rate that was three times that of workers making less than $50,000, and two times that of taxpayers earning between $50,000 and $200,000. By 2011, those making more than $200,000 paid almost seven times the average tax rate of taxpayers earning less than $50,000, and 2.5 times that of workers earning between $50,000 and $200,000. As a result of this boost in relative rates for the “rich,” the Congressional Budget Office (http://tinyurl.com/pz3utz) concluded that the “top 40 percent of income earning households actually paid 106.2 percent of the nation’s net income taxes in 2010,” by supplying $18,950 in what the CBO called “government transfers” or negative income taxes for households in the bottom 40 percent of earners. But how did taxing the rich more heavily affect income inequality? Since 1996, the U.S. Gini coefficient, which measures income inequality, has climbed each year indicating that income inequality in the U.S. has risen. Furthermore in 2010 as measured by Gini coefficients, the ten states with the lowest income tax rates (Alaska, Wyoming, New Hampshire, Wisconsin, Washington, South Dakota, Nevada, Tennessee, Texas and Florida) had the greatest income equality, and the ten states with the highest income tax rates (Minnesota, Maine, New York, Vermont, DC, New Jersey, Iowa, Oregon, Hawaii and California) had the greatest income inequality. Thus, the policy of “taxing the rich” did not contribute to income equality, and there is at least evidence supportive of the hypothesis that taxing the rich more heavily contributed to greater income inequality. In conclusion, raising income taxes on the rich is neither fair, nor helpful to the non-rich. Ernie Goss.

MAINSTREET RESULTS

Growth Unchanged from October for Rural Mainstreet Economy: Bankers Expect Farmland Prices to Decline Next Year

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

<table>
<thead>
<tr>
<th>Table 1: The Mainstreet Economy</th>
<th>Nov. 2012</th>
<th>Oct. 2013</th>
<th>Nov. 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area Economic Index</td>
<td>57.5</td>
<td>54.3</td>
<td>54.3</td>
</tr>
<tr>
<td>Loan volume</td>
<td>47.8</td>
<td>64.7</td>
<td>56.9</td>
</tr>
<tr>
<td>Checking deposits</td>
<td>75.1</td>
<td>48.3</td>
<td>72.0</td>
</tr>
<tr>
<td>Certificate of deposits</td>
<td>45.5</td>
<td>35.4</td>
<td>44.8</td>
</tr>
<tr>
<td>Farm land prices</td>
<td>83.9</td>
<td>50.9</td>
<td>54.3</td>
</tr>
<tr>
<td>Farm equipment area sales</td>
<td>60.4</td>
<td>44.6</td>
<td>47.3</td>
</tr>
<tr>
<td>Home sales</td>
<td>62.0</td>
<td>58.0</td>
<td>56.2</td>
</tr>
<tr>
<td>Hiring in the area</td>
<td>53.0</td>
<td>56.1</td>
<td>54.4</td>
</tr>
<tr>
<td>Retail Business</td>
<td>51.5</td>
<td>52.6</td>
<td>47.4</td>
</tr>
<tr>
<td>Economy 6 months from now</td>
<td>45.6</td>
<td>44.7</td>
<td>48.3</td>
</tr>
</tbody>
</table>

Survey Results at a Glance:
- Rural Mainstreet Index indicates rural economy continues to grow.
Confidence: The confidence index, which reflects expectations for the economy six months out, climed to a weak 48.3 from 44.7 in October. The lack of a farm bill, lower agriculture commodity prices and the EPA’s proposed changes in the mandated ethanol blending level weighed on bankers’ economic outlook.

Home and retail sales: The November home-sales index declined to a still solid 56.2 from October’s 58.0. The November retail-sales index fell to 47.4 from 52.6 in October. Much like the national housing market the Rural Mainstreet housing market continues to grow at a solid pace, even with the higher mortgage rates. On the other hand, the weaker retail reading should be a concern for businesses depending heavily on the holiday buying season.

Each month, community bank presidents and CEOs in nonurban, agriculturally and energy-dependent portions of a 10-state area are surveyed regarding current economic conditions in their communities and their projected economic outlooks six months down the road. Bankers from Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota and Wyoming are included. The survey is supported by a grant from Security State Bank in Ansley, Neb.

This survey represents an early snapshot of the economy of rural, agriculturally and energy-dependent portions of the nation. The Rural Mainstreet Index (RMI) is a unique index covering 10 regional states, focusing on approximately 200 rural communities with an average population of 1,300. It gives the most current real-time analysis of the rural economy. Goss and Bill McQuillan, president of CNB Community Bank of Greeley, Neb., created the monthly economic survey in 2005.

COLORADO
For the 14th straight month, Colorado’s Rural Mainstreet Index (RMI) remained above 50.0. The November RMI slipped to a healthy 58.8, a regional high, from October’s 59.1. The farmland and ranchland price index expanded to 68.0 from last month’s 65.1. Colorado’s hiring index for November fell to a healthy 63.5 from October’s 65.0.

ILLINOIS
The RMI for Illinois advanced to 54.5 from October’s 54.1. The RMI has remained at or above growth neutral for 14 straight months. Farmland prices rose to 46.0 from 43.1 in October. The state’s new-hiring index declined to 48.8 from 50.4 in October.

IOWA
The November RMI for Iowa fell to 53.9 from October’s 55.3. The farmland-price index for November clibmed to 53.5 from October’s 50.6. Iowa’s new-hiring index for November decreased to 53.9 from October’s 55.4. “We are beginning to see some softening in land prices but they are still strong if there are two or more bidders involved,” said James Brown, CEO of Hardin County Savings Bank in Eldora.

KANSAS
The Kansas RMI for November climbed to 53.8 from October’s 53.6. The farmland-price index for October advanced to 48.6 from October’s 45.7. The state’s new-hiring index slipped to 50.6 from 52.1 October. Dale Bradley, chairman of the Citizens State Bank in Miltonvale, reported, “Good Fall crops in our area and Kansas overall.”

MINNESOTA
The November RMI for Minnesota expanded to 53.9 from 53.7 in October. Minnesota’s farmland-price index for November was unchanged from October’s 48.3. The new-hiring index sank from 46.3 in October to November’s 44.7. According to Pete Haddeland, CEO of First National Bank in Mahnomen, “Lower commodity prices will hold down increases in farmland prices.”

MISSOURI
The November RMI for Missouri climbed to a healthy 58.5 from 55.4 in October. The farmland-price index for November advanced to 48.3 from October’s 45.5. Nebraska’s new-hiring index stood at 50.4 for November from 51.9 in October.

NEBRASKA
After moving below growth neutral for January, Nebraska’s Rural Mainstreet Index has been above growth neutral for 10 straight months. The November RMI slipped to 54.8 from 54.9 in October. The farmland-price index for November advanced to 48.3 from October’s 45.5. Nebraska’s new-hiring index stood at 50.4 for November from 51.9 in October.

NORTH DAKOTA
The North Dakota RMI for November declined to 57.7 from October’s 57.9. The farmland-price index jumped to 70.2 from 45.5 in October. North Dakota’s new-hiring index grew slipped to 65.1 from 66.6 in October.

SOUTH DAKOTA
The November RMI for South Dakota jumped to 55.6 from October’s 48.7. The farmland-price index for the state for November clibed to 52.6 from October’s 49.8. South Dakota’s new-hiring index for No-yember expanded to 55.7 from 54.8 in October. According to David Callies, CEO of Miner County Bank in Howard, farmland prices continue to increase though he wondered whether those values could be sustainable, based on production and the volatility of crop prices.

WYOMING
The November RMI for Wyoming was unchanged from October’s 55.1. The November farmland and ranchland price index increased to 46.4 from 43.6 in October. Wyoming’s new-hiring index moved lower to 49.2 from October’s 50.7.

THE BULLISH NEWS

- The job report for November showed that the U.S. economy added 203,000 jobs and the unemployment rates declined to 7.0%, its lowest level since the middle of the recession or November 2008.

- Home prices expanded by 13.0% between September 2012 and September 2013 or the fastest pace since just before the collapse. Housing bubbles are forming across the U.S.

- November purchasing management indices (PMIs) from the national survey of supply managers shot up to a solid 57.3 while Creighton’s regional surveys improved for November.

- Third quarter GDP expanded by a solid 3.6% (however 50% of the growth came from inventory buildup).
THE BEARISH NEWS

• U.S. retail sales growth between October 2012 and October 2013 was a tepid 3.9%. It should be 5%-6%.

• Home foreclosures remain unacceptable high for certain parts of the nation even as housing prices expand at very healthy paces.

WHAT TO WATCH

• PMIs: On Jan. 2, Creighton University and the Institute for Supply Management will release purchasing management indices (PMI) for December. This is the first economic data released in January. Keep an eye on the overall index and the inflation gauge.

• Jobs: On Friday Jan. 10, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for December. Another very positive job report such as job growth above 250,000 will push interest rates higher faster than most economists, including the Fed, expect.

• FOMC Meetings: On December 17 and 18, the Federal Reserve’s Open Market Committee meets to shape interest rate policy. They will likely announce when tapering of their $85 billion monthly bond buying program. Listen for members of the committee to “hint” at their likely decision well in advance of the meetings.

THE OUTLOOK

FROM GOSS:

• I expect tepid growth for the agriculturally dependent areas of the nation for the first half of 2014 as lower agriculture commodity prices continue to restrain farm income growth.

• I still expect the Federal Reserve to announce at their Dec. 17-18 meetings that they will begin tapering in January 2014. Keep an eye on your bond fund investments focused on long term U.S. Treasuries. You could sustain some heavy losses in 2014.

OTHER FORECASTS:

• ICBA Urges Congress to Ensure Community Bank Access to Secondary Mortgage Market. “ICBA told Congress that continued community bank access to the secondary mortgage market is essential as policymakers pursue reform. Testifying before the Senate Banking Committee, ICBA Chairman Bill Loving said that while the current government-sponsored enterprise secondary mortgage market structure has worked well for community banks, ICBA welcomes the return to a more balanced and less concentrated housing finance system. Loving provided ICBA’s views on several secondary mortgage market issues, including the need to: 1) preserve the Federal Home Loan Banks as an access point to the national secondary market for community banks, 2) ensure that only loans meeting the “qualified mortgage” definition should be eligible for securitization or sale to the secondary market and contain a government guaranty, and 3) gradually and transparently transitioning from the current GSEs to any new credit enhancement/guarantor structure to prevent the disruption of the flow of funds into the housing market.”

GOSS EGGS
(RECENT DUMB ECONOMIC MOVES)

• The recent Congressional deal to end federal spending sequestration will cost airline travelers a bundle. In order to shed spending limitations, Congress agreed to raise taxes (fees) on airline tickets. Congress and the Administration need to have the courage to be honest with the American people and refrain from raising taxes that are “invisible” to most Americans. Tax increases should be transparent, not hidden.

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