

## Super Rich Meet in Omaha and Propose Higher Income Taxes: Highest Bracket Already Pays Six Times the Rate of the Middle

Millionaire Hillary Clinton and billionaire Warren Buffet met in Omaha earlier this month to trumpet higher income tax rates on high and middle income earners. Ignoring the data, the two super-rich, joined by income laggards Dallas Maverick owner Mark Cuban and former New York Mayor Michael Bloomberg, argue that levying higher tax burdens on workers in the top income bracket will reduce income inequality.

However between 1980 and 2013 when income inequality, as measured by the Gini Coefficient expanded by 22.2%, the share of federal income taxes paid by the highest earners rose from 64.7% to 88.0% while the share paid by the lowest one-fifth declined from +0.1% to -4.0% (i.e. tax rebates greater than tax payments). Even the middle income's share dropped from 10.7% to 3.9% over the 33 years.

The reasons that taxing high income individuals more heavily does not reduce income inequality are that excessively high tax rates on high income: 1) discourage individuals from pursuing higher education and training to increase income; 2) encourage individuals to reduce work efforts and to increase leisure activity; 3) restrain small business formation and risk taking by entrepreneurs seeking greater financial returns; 4) incentivize individuals to spend excessively on goods and services that are deductible from taxes and; 5) encourage high income individuals to move to lower tax nations. But unfortunately for the economy, envy economics, as evidenced in Omaha in August, remains a viable political tool by generating votes and self-righteous smugness from its devotees. Ernie Goss.

## MAINSTREET RESULTS

### Rural Mainstreet Economy Weakens in July: High Share of Crop Farmers with 2016 Negative Cash Flow

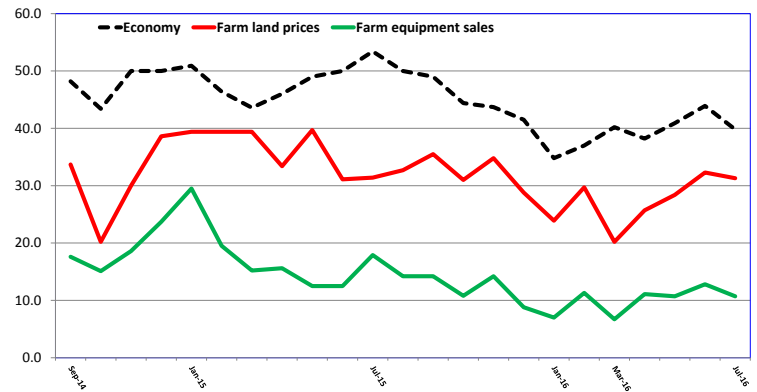
Table 1: The Mainstreet Economy	July 2015	June 2016	July 2016
Area Economic Index	53.4	43.9	39.8
Loan volume	72.1	73.5	67.4
Checking deposits	53.4	47.9	49.0
Certificate of deposits	38.6	43.7	43.9
Farm land prices	31.4	32.3	31.3
Farm equipment area sales	17.9	12.8	10.7
Home sales	73.3	64.6	61.5
Hiring in the area	60.3	53.2	49.0
Retail Business	53.4	40.9	37.8
Economy 6 months from now	46.6	42.8	32.3

#### Survey Results at a Glance:

- For an 11th straight month, the Rural Mainstreet Index fell below growth neutral.
- Farmland prices remained below growth neutral for the 32nd straight month.
- Bank CEOs reported a 6 percent decline in farmland prices over the past year.

- Bankers expect cash expenses will exceed cash revenues for one in five crop farmers in the region.
- Bank CEOs expect farm loan defaults to grow by 5.4 percent over the next year.

Rural Mainstreet, Economic Indicators, Sept. 2014 – July 2016



The Creighton University Rural Mainstreet Index for July fell from June's weak reading, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

**Overall:** After improving for four of the last five months, the index, which ranges between 0 and 100, sank to 39.8 from 43.9 in June. This is the 11th straight month the overall index has remained below growth neutral.

Over the past 12 months, farm prices have fallen by 9 percent, and livestock prices are off by 16 percent. These weak agriculture commodity prices are pushing the overall Rural Mainstreet economy lower.

As a result of weaker farm economic conditions, bankers expect almost one in five crop farmers, or 19.5 percent, to suffer negative cash flows where cash expenses exceed cash revenues for 2016.

**Farming and ranching:** The farmland and ranchland-price index for July slumped to 31.3 from 32.3 in June. This is the 32nd straight month the index has languished below growth neutral 50.0.

This month, bankers estimated, on average, farmland prices have fallen by 6 percent over the past 12 months. However, as in previous months, there is a great deal of variation across the region in the direction and magnitude of farmland prices, with prices growing in some portions of the region.

One bank CEO said, "The cow and calf operators, which dominate our market, are the ones that will feel the effect of the downturn in the market the most."

The July farm equipment-sales index sank to 10.7 from 12.8 in June. Weakness in farm income and low agriculture commodity prices continue to restrain the sale of agriculture equipment across the region.

**Banking:** Borrowing by farmers remains strong even though the July loan-volume index dipped to 67.4 from last month's 73.5. The checking-deposit index increased to 49.0 from June's 47.9, while the index for certificates of deposit and other savings instruments improved slightly to 43.9 from 43.7 in June.

This month, bankers were asked to assess the likelihood of loan defaults in their area. On average, farm loan defaults are expected to rise by 5.4 percent over the next 12 months. However almost one-fifth, or 18.3 percent, of bank CEOs estimate loan defaults will expand by more than 10 percent.

**Hiring:** After moving above growth neutral for June, the Rural Mainstreet hiring index fell below the threshold for July. According to bankers, Rural Mainstreet businesses reduced jobs slightly for June with a hiring index of 49.0 which was down from June's reading of 53.2. Rural Mainstreet employment is down by approximately 1.8 percent from this time last year. This contrasts to employment gains for urban areas of the region of approximately 1.4 percent for the same 12-month period.

Lydell Woodbury, president at the First Nebraska Bank in Stanton, Nebraska, reported, "We have quite a few job openings, but no labor pool to draw from."

**Confidence:** The confidence index, which reflects expectations for the economy six months out, plum-meted to 32.3 from 42.8 in June indicating a continuing pessimistic outlook among bankers. While bankers already had a downbeat assessment of the rural economy, the British vote to leave the EU (Brexit) softened the outlook even more. Like bankers, I expect Brexit, once begun, to increase the value of the U.S. dollar with a resulting decline in agriculture commodity prices.

The outlook for some bankers was positive. Pete Haddeland, CEO of the First National Bank in Mahno-men, Minnesota, said, "Great looking crop. Rain at the right time."

**Home and retail sales:** Home sales remain the bright spot of the Rural Mainstreet economy with a robust July index of 61.5, down from a solid 64.6 in June. The July retail-sales index slumped to 37.8 from 40.9. Home sales in rural areas of the region continue on a strong trajectory, but rural retailers much like their urban counterparts are experiencing downturns in sales.

Bank CEOs expect lackluster holiday sales growth from the 2014 season. On average, a one percent increase in retail sales for Rural Mainstreet businesses is expected. The strong dollar, especially against the Canadian dollar, is depressing retail sales among border states. For example, John Marchell, president of the First State Bank Grand Forks, North Dakota, said, "The decrease in the number of Canadian retail customers is noticeable."

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, former chairman of the Independent Community Banks of America, created the monthly economic survey in 2005.

## MAINSTREET ON YOUR STREET

### COLORADO

Colorado's Rural Mainstreet Index (RMI) rose to 52.4 from 51.3 in June. The farmland and ranchland-price index slid to 42.1 from June's 52.6. Colorado's hiring index for July fell to 52.6 from June's 59.8. Colorado's job growth over the last 12 months; Rural Mainstreet, -0.2 percent; Urban Colorado, 2.8 percent.

### ILLINOIS

The July RMI for Illinois fell to a regional low of 18.1 from June's 31.8. The farmland-price index increased to 29.4 from June's 22.7. The state's new-hiring index slumped to 42.4 from last month's 48.9. Illinois' job growth over the last 12 months; Rural Mainstreet, -2.7 percent; Urban Illinois 1 percent.

### IOWA

The July RMI for Iowa sank to 51.9 from June's 59.1. Iowa's farmland-price index for July dipped to 49.7 from 51.5 in June. Iowa's new-hiring index for July fell to 55.4 from 59.4 in June. Iowa's job growth over the last 12 months; Rural Mainstreet, 1.5 percent; Urban Iowa, 0.9 percent.

### KANSAS

The Kansas RMI for July advanced to a weak 37.4 from June's 25.1. The state's farmland-price index for July increased to 25.6 from 22.5 in June. The new-hiring index for Kansas sank to 39.5 from 44.9 in June. Job growth in Kansas over the last 12 months; Rural Mainstreet, -2.8 percent; Urban Kansas, 0.8 percent.

### MINNESOTA

The July RMI for Minnesota fell to 35.9 from June's 44.1. Minnesota's farmland-price index slumped to 30.0 from 36.9 in June. The new-hiring index for the state dipped to 48.2 from last month's 54.1. Minnesota's job growth over the last 12 months; Rural Mainstreet, -0.5 percent; Urban Minnesota 1.3 percent.

### MISSOURI

The July RMI for Missouri decreased to 37.8 from 44.2 in June. The farmland-price index slipped to 29.6 from June's 29.9. Missouri's new-hiring index plummeted to 22.6 from 46.7 in June. Missouri's job growth over the last 12 months; Rural Mainstreet, -8.2 percent; Urban Missouri 1.8 percent.

### NEBRASKA

The Nebraska RMI for July shrank to 51.5 from a regional high of 63.2 in June. The state's farmland-price index slipped 49.3 from June's 49.7. Nebraska's new-hiring index declined to 55.2 from 58.8 in June. Nebraska's job growth over the last 12 months; Rural Mainstreet, 1.5 percent; Urban Nebraska, 1.4 percent.

### NORTH DAKOTA

The North Dakota RMI for June dipped to 35.9 from 36.7 in June. The farmland-price index sank to 21.2 from 28.2 in June. North Dakota's new-hiring index slumped to 25.6 from June's 38.9. North Dakota's job growth over the last 12 months; Rural Mainstreet, -9.7 percent; Urban North Dakota, 0.6 percent.

### SOUTH DAKOTA

The July RMI for South Dakota improved to 40.1 from 39.7 in June. The farmland-price index grew to 28.0 from 27.7 in June. South Dakota's new-hiring index fell to 47.5 from June's 50.8. South Dakota's job growth over the last 12 months; Rural Mainstreet, 0.0 percent; Urban South Dakota, 2.3 percent.

### WYOMING

The July RMI for Wyoming plummeted to 31.2 from June's 41.2. The June farmland and ranchland-price index rose to 30.3 from 24.5 in June. Wyoming's new-hiring index sank to 34.9 from June's 38.9. Wyoming's job growth over the last 12 months; Rural Mainstreet, -3.1 percent; Urban Wyoming, -3.6 percent.

## THE BULLISH NEWS

- U.S. home prices rose by 5.2% between May 2015 and May 2016. This marked the seventh straight month that growth has exceeded five percent.
- U.S. companies added 255,000 jobs in July as the labor force (unemployed + employed) expanded by 407,000.

## THE BEARISH NEWS

- The US economy grew just 1.2% in the second quarter of 2016 and has now grown at an average of 1.2% over the past 12 months. At this stage in the business cycle, growth should be triple this.
- Between July 2015 and July 2016, wages expanded by only 2.6%. Subtract inflation and workers are seeing little reason for joy.
- Between June 2015 and June 2016, the core CPI, which excludes food and energy, rose by 2.3% and has risen above 2.0% for 8 straight months.
- The U.S. trade deficit climbed by \$44.5 billion in June, its highest level in 10 months.

## WHAT TO WATCH

- **The Jobs Report:** On Sept. 2, the Bureau of Labor Statistics will release the August jobs report. Another very strong report (i.e. more than 200,000 jobs) will push the Federal Reserve to raise rates at their meetings in Sept. or Dec. There will be no rate hike in Nov. due to the elections.
- **CPI:** On Aug. 16 and Sept. 16, the Bureau of Labor Statistics releases the consumer price index (CPI) for July and August, respectively. Keep an eye on the core CPI (excludes food and energy). The year-over-year growth has been above 2.0% for the past 8 months.
- **Federal Reserve (Fed) Meetings:** On Sept. 20-21, the interest rate setting committee of the Fed meets to consider changing short-term interest rates. While they may not raise rates at this meeting, they may set the stage for a Dec. rate increase in their post-meeting statements.

## THE OUTLOOK

### FROM GOSS:

- \*\*I put the likelihood of a Federal Reserve rate hike in September at 40%. However, I place the probability of one more rate increase in 2016 at 90%. \*\*U.S. inflationary pressures will continue to rise gently for the rest of 2016. By the end of 2016, the annual increase in the core CPI will approach 3.0%. This is unacceptably high as viewed

by the Fed.

### OTHER FORECASTS:

- **National Association of Business Economists (NABE).** (June 2016) "The June NABE Outlook Survey marks the third consecutive markdown of 2016 real GDP growth by respondents," according to NABE President Lisa Emsbo-Mattingly. "Panelists now foresee economic growth of only 1.8% in 2016, a decline from the 2.2% advance forecasted in the March 2016 survey. Nearly 60% of the panel views uncertainty surrounding the upcoming election as damaging to GDP growth in 2016." NABE panelists expect the Federal Reserve to raise its federal funds target rate two more times this year.

## GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- According to the WSJ, the Belgium government's welfare system awarded \$28,000 to terrorist Khalid el-Barraouri before he blew himself and 16 innocents up in Brussels' subway system, and just after he exited prison. Now that is a sure-fire method of reducing prisoner recidivism.

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This month's survey results will be released on the third Thursday of the month, Aug. 18.