

Iowa's Economy  
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August 11, 2005

Because of its rich farmland and strong agricultural traditions, many may think that Iowa's economy is agriculturally based. However, Iowa has a widely diversified economy with strong manufacturing and financial bases, each of which accounts for about one-fifth of the total value of production. Representing these bases are long-established and well-known companies – Maytag, Amana, Rockwell-Collins, John Deere, Republic Insurance, Principal Financial, to name a few. Manufacturing is more important in Iowa than in the nation as a whole, but its importance is diminishing as Iowa follows the nationwide trend to an increasingly service-oriented economy.<sup>1</sup> Among the more rapidly expanding service sectors are those that provide financial, managerial, educational, and medical services. Expanding manufacturing industries include computer and electronic products, motor vehicle parts, chemicals, and food products.<sup>2</sup> With rising prices, the value of crop and animal production has increased sharply in the past few years, but it is still less than 5 percent of total production.

Over the long run, the average standard of living, as measured by per capita (per person) personal income, has increased at the same rate for Iowans as for all U. S. residents.<sup>3</sup> By this measure, Iowa's economy has performed as well as the average of other states. But Iowa's population growth has fallen far short of the nation-wide average, and for that reason its economy has grown more slowly than the national economy.<sup>4</sup>

Many see the relatively slow growth of Iowa's economy as a problem, if not a failure. Others argue that the success of a state's economy should be gauged by the standard of living that its residents enjoy. That standard depends in part on the goods and services that Iowans can buy in the market place, which depend in turn on their personal income. It also depends on the availability and quality of public services. Access to market-traded goods and services is about average for Iowans – their per capita personal income is typically 90-95 percent of the U. S. average. This income differential is largely offset by Iowa's relatively low cost of living. Public service availability and quality is surely above average for Iowans, since Iowa's governmentally provided services, such as education, law enforcement, and public health services, typically rank high in interstate comparisons.<sup>5</sup> If we focus on individual living standards, it is therefore reasonable to conclude that Iowa's economy is performing quite well despite its relatively slow growth.

Statewide measures of economic activity do not give a complete picture of Iowa's dynamic economy. In general, population, employment, and income are growing in urban areas, but declining or static in most rural areas. About half of Iowa's labor force and employment is concentrated in seven metropolitan statistical areas (MSAs). All of the 10 counties with the fastest population growth are either in an MSA or border one. Two Iowa MSAs (Des Moines and Iowa City) are growing in line with high growth cities in other states.<sup>6</sup> Since 2000, the increases of population and employment in these 2 MSAs have exceeded statewide increases, with the result that economic activity is becoming increasingly concentrated in these two growth centers.<sup>7</sup> Although some non-metropolitan

counties are growing, as a group these counties are losing population and employment. Income levels also differ between rural and urban areas. In recent years, per capita personal income has averaged about 18% higher in Iowa's metro areas than in its non-metro areas. Nationally, this rural-urban income gap is even greater, averaging about 40%.<sup>8</sup> Other states have experienced the same pattern of changes, so Iowa is a good example of trends in the nation as a whole.

What lies ahead? There is little in current conditions and outlook to suggest a major departure from past trends. Relatively slow population growth seems likely to continue, as will expressions of concern about slow growth by political and business leaders. As suggested above, this should perhaps not be seen as a problem. Even if Iowa's population continues to grow slowly, Iowans can look forward to increases in living standards commensurate with increases enjoyed by more rapidly growing areas. Indeed, they may be somewhat better off because they will avoid the pressures, environmental problems, and dislocations of rapid growth. Rural-urban differentials in growth and incomes are likely to persist. And we can expect most if not all growth to be concentrated in the fastest growing MSAs – Des Moines, Iowa City and Cedar Rapids. As in the past, internal migration to these growth centers will lead to population losses from many of Iowa's rural counties.

<sup>1</sup> In 2003, IA ranked tenth among states in percentage of non-farm employment in manufacturing

<sup>2</sup> Expansion based on GSP growth 2001-2003

<sup>3</sup> From 1960 – 2004, per capita personal income increased 1382% in IA, 1347% in US. Percent changes 2001-2003: total employment US = .1, IA = - .2; GSP IA = 10.2; US = 8.6; personal income % change 2001-2004: IA = 13.6, US = 11.0

<sup>4</sup> Percent increase in population 1960-2004: US 63; IA 7. IA population actually fell by 13700 between 1980 and 1990; recovered to 1980 level only by 2000

<sup>5</sup> Iowa has below average child and adult poverty rates, dropout rates, and violent crime rates. Its public school students consistently score in the top 10 states on the National Assessment of Educational Progress.

<sup>6</sup> Their growth rates of personal income and population exceed the national average.

<sup>7</sup> From 2000 – 2004 Resident employment increased by 22,400 in IC and Des Moines, while decreasing statewide by 15,700

Similarly, from 2000-2003 population increased in IC and Des Moines by 24,643, more than the statewide increase of 15,652

<sup>8</sup> Based on data for 2000-2003.