# Tax Cuts of Kansas Already Improving the State's Economy

When Kansas Governor Sam Brownback signed into law the first of several reductions in his state's income taxes back in May 2012, he wrote:

> Our new pro-growth tax policy will be like a shot of adrenaline into the heart of the Kansas economy. It will pave the way to the creation of tens of thousands of new jobs, bring tens of thousands of people to Kansas, and help make our state the best place in America to start and grow a small business.

By cutting the top tax bracket by 25 percent and eliminating taxes on small businesses altogether, he expected great things to happen:

> We supported small business by taking away all income taxes on small businesses, allowing them to reinvest in their businesses, creating jobs and growth….
>
> By giving these companies more money to reinvest in their businesses we are enabling them to hire more people and invest in needed equipment.

Aside from his *faux pas* suggesting that the state was "giving these companies more money to invest" instead of stating more accurately, "allowing business owners to keep more of their own money to reinvest in their businesses," his intentions and expectations were that the economy of Kansas would start to accelerate as the tax burden was lifted from key job creators in the state.

Small business owners welcomed the news. When Brian Williamson, president of the 17-employee JCB Laboratories in Wichita, learned about the tax cuts, he said,

> If we save a percent and a half on taxes, yeah, it's going back into the company, whether it's to hire more people … or invest in equipment, a process or technology.

Such reinvestment is beginning to show up in the statistics. According to the National Conference of State Legislatures, in May Kansas touted an unemployment rate of just 4.8 percent, compared to 5.1 percent in Texas, 5.8 percent in Colorado, and 6.8 percent in Arizona. It's also way below the national unemployment rate of 6.1 percent.

Of special interest, however, is the unemployment rate of next-door-neighbor Missouri which shares not only a border with Kansas but also more than half of Kansas City. Missouri, which didn't cut income taxes (they remain at six percent on taxable incomes above $9,000) suffers from an unemployment rate of 6.6 percent, and climbing.

A close look at what is happening in the Kansas City metro area is revealing: From May 2011 through May 2012 (June numbers from the Bureau of Labor Statistics won't be published until July 18), almost three-fourths of job growth took place in Kansas City, *Kansas*. What's even more impressive, however, is that Kansas City, Kansas has one-fourth the population of Kansas City, Missouri: 145,000 compared to 476,000. As Will Upton modestly concluded in his blog at Americans for Tax Reform, "It is arguable that the 2012 spike [in employment on the Kansas side of town] was caused by businesses anticipating a better tax climate in Kansas after the 2012 tax cuts."

All of which shouldn't surprise anyone. Arthur Laffer, one of the three economists who co-authored *An Inquiry Into the Nature and Causes of the Wealth of States* earlier this year, advised Governor Brownback during the crafting of the tax cut bill. In his book, Laffer presents irrefutable evidence that lowering tax rates on small businesses allows more of them to be created, leading to more jobs and stronger economic growth.

This evidence and logic, however, fly in the face of conventional wisdom: that government spending creates jobs and by starving the government, the economy suffers. The cast of fools promoting this nonsense in the national media seized upon a single piece of data — that Kansas state government revenues for the current fiscal year have dropped slightly — to make the case that Kansas was soon going to disappear into a morass of unemployment resulting in massive cutbacks in state services for roads, education, and such. Leading the parade of such Keynesian dreamers was Michael Hiltzik, author of *The Economy Hub* for the *Los Angeles Times*. He called Kansas a graveyard, thanks to Brownback, Laffer, and those knuckle-dragging tea partiers:

> The graveyard is where the economy of Kansas has been buried since 2012, when Brownback and his Republican state legislature enacted a slew of deep tax cuts in a tea party-esque quest for economic "freedom."

He decried those tax cuts which "allow everyone from freelancers and petty contractors to huge partnerships to avoid any state income tax at all." As evidence for the failure of those cuts to work, he pointed to a single piece of data: the report from the Kansas state treasurer's office that revenues this year have dipped slightly. What Hiltzik failed to mention was that they dipped due to the change in capital gains taxes in 2013 that forced many to sell in 2012 to avoid the higher taxes in 2013. This skewed revenue flow made for an incomplete and inaccurate comparison of revenues to the year before.

He also failed to mention that Kansas Budget Director Shawn Sullivan, on the day of the announcement of the shortfall, said that not only does the state have enough reserves to cover the temporary shortfall, but, "We feel like we're going to be OK."

Next in line were the worthies at the *New York Times* calling themselves the Editorial Board. It called Brownback's tax cuts "ruinous" and "spectacularly ill-advised," and the temporary shortfall proved, to their satisfaction at least, that "states cannot cut their way to prosperity. They need every tool of government to nurture growth, and those tools require money."

Stephen Moore, the Heritage Foundation's chief economist and co-author with Laffer of *Inquiry*, happily put the matter to rest:

> What is irrefutable from the evidence in the states, not just Kansas, is that strategic tax-rate reductions can ignite growth and employment….
>
> Over the past two decades, the nine states without an income tax have had double the population growth and more than double the income growth of states with very high income taxes. These

> results are statistically significant, which means it is very unlikely they happened by chance.

However, along with passing much-needed tax cuts, Kansas also needs to cut government spending. But it's easier and more politically acceptable to cut taxes. It's much more difficult to cut government spending to offset the decrease in revenues due to vested interests in that spending. As Dave Trabert, president of the conservative Kansas Policy Institute and supporter of the tax cuts passed by Brownback, said:

> We didn't reduce spending accordingly, and we should have. That's what we've said from the very beginning. You have to bring down the cost of government.
>
> It's always easier to say you are going to cut spending. But when it comes down to it, it's awfully hard to do.

This is a serious headwind that the tax cuts are facing in greatly improving the economy of Kansas. It's asking a lot for the economy to do all the heavy lifting when it would be much easier for the economy to improve the lives of Kansans significantly without having to continue to bear the costly burden of excessive government at the same time.

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