Kansas Comparison Doesn't Tell Whole Story on Tax Cuts

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By Jim Vokal

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In her May 22nd column, OpenSky executive director Renee Fry asserted that recent tax cuts in Kansas have damaged schools and key public services in the Sunflower State. Citing a bond rating downgrade by Moody's, Fry also argued that 2012 income tax cuts do not serve the public interest and that cuts in Kansas "failed to improve the economy."[1] Fry joins other proponents of increased government spending in misrepresenting the Moody's report. More fundamentally, the column confuses economic cause and effect.

Kansas has fallen behind the national average in job growth for ten of the last fifteen years. Likewise, Kansas gross domestic product and personal income have been subpar over the same timespan.[2] Unwinding years of economic stagnation cannot occur overnight, no matter how sound the reform. Moreover, Kansas passed a tax reform measure in 2012, but lawmakers failed to seriously curtail spending. Unfunded state liabilities, not tax cuts, were at the core of the Moody's criticism.[3]

The Moody's report principally cited "the use of non-recurring measures to balance the budget (and) revenue reductions (resulting from tax cuts) which have not been fully offset by recurring spending cuts." Moody's also expressed concern over "an underfunded retirement system for which the state is not making actuarially required contributions."[4]

A lack of budgetary discipline, not tax relief, is the reason for the ding to Kansas's creditworthiness. The same legislators who passed the 2012 cuts—effective in January 2013—also increased spending, with next year's inflated bottom line setting a record high for public spending in Kansas. Kansas frequently uses bonding to pay for public works, while Nebraska is far more committed to pay-as-you-go financing. Kansas has made a practice of spending money it did not have. After cutting taxes it kept on spending. Finally, Kansas has also been hit hard by declines in the aerospace industry and manufacturing, contributing to the flat economic indicators there.

Contrary to promises made by advocates of high taxes and big spending, the data show states with lower tax burdens see higher population growth, more job creation, and increased wages. In her column, Fry claimed that low taxes only work in states with abundant natural resources and high tourism. However, Tax Foundation analysis of statistics from the Bureau of Labor Statistics and other federal agencies shows that when it comes to comparing low and high tax states, both groups include states with good weather and bad, coastal states and inland states, and states with and without abundant natural resources. The commonality between states with high tax burdens is high public spending for the same basket of essential public services, not a lack of natural resources.[5]

Indeed, Nebraska is rich in natural resources. Efficient use of the fertile agricultural land in Nebraska reliably puts the state near the top of national rankings for most irrigated land harvested, most meat produced, and many other measures of the agricultural economy.[6] Making the most efficient use of Nebraska's natural resources, whether for agriculture or other applications, requires continuing capital investment. Taxes that inhibit capital accumulation, particularly personal and corporate income taxes, prevent investments that would pay dividends for years to come.[7]

Aside from promoting growth of the agricultural economy, the positive impact of tax relief on migration to Nebraska would grow the economy.[8] Businesses looking at Nebraska as a site for expanded business operations often point to a lack of qualified workers as a strike against the state. An influx of workers to Nebraska resulting from meaningful tax relief would fuel new enterprises and encourage the growth of industry, boost wages, and help revitalize communities struggling with shrinking populations and diminished economic activity.

A friendly tax environment fosters growth, which in turn fattens revenues for public services. Champions of more taxes and more public spending fail to recognize that entrepreneurs grow the economy, not government. Successful enterprises pay taxes, but high taxes do not encourage the creation and development of successful enterprises. Tax reform paired with responsible checks on spending will make Nebraska a safer place for commercial investment. This boost will multiply the opportunities for more people to start to enjoy the Nebraska good life for themselves.

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[1] Fry, Renee. "Local View: Look at the damage in Kansas." *Lincoln Journal-Star*. May 22, 2014. [URL: http://journalstar.com/news/opinion/editorial/columnists/local-view-look-at-the-damage-in-kansas/article_a8f685c0-6415-5d36-93bb-5d7f83e849a6.html]

[2] Trabert, Dave. "Debunking CBPP on tax reform and school funding, Part 4." Kansas Policy Institute. May 17, 2014. [URL: http://www.kansaspolicy.org/KPIBlog/117691.aspx]

[3] Trabert, Dave and Steve Anderson. "Kansas Downgrade Due To Excess Spending, Not Tax Cuts." *Investor's Business Daily*. May 12, 2014. [URL: http://news.investors.com/ibd-editorials-perspective/051214-700535-kansas-fiscal-woes-stem-from-too-much-spending.htm]

[4] *Ibid*.

[5] Trabert, p. 2.

[6] “Nebraska Agriculture: Fact Card.” Nebraska Department of Agriculture. February 2014. [URL: http://www.nda.nebraska.gov/facts.pdf]

[7] McBride, William. “The Fairness of a Free Market Tax Policy.” Platte Institute for Economic Research. November 4, 2014. [URL: http://www.platteinstitute.org/research/detail/the-fairness-of-free-market-tax-policy]

[8] “State Taxation and Migration.” Platte Institute for Economic Research. January 15, 2014. [URL: http://www.platteinstitute.org/research/detail/state-taxation-and-migration]