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FALSE PROMISE OF PROSPERITY
For Kansas Economic Growth, TABOR May Do More Harm than Good

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Summary

A constitutional TABOR amendment in Kansas has been promoted as a way to improve the state's economy. It is far more likely, however, that a TABOR would impede the strengthening of the state's economy. TABOR would restrict the legislature's ability to set fiscal policy and would take away some of the most effective tools that the legislature could use to stimulate economic growth. By so doing, TABOR may harm rather than help the Kansas economy.

In Colorado, which enacted the original TABOR on which the Kansas proposal is based, business leaders have spoken out to say that TABOR harms the economic climate by undermining a range of services — from education to transportation to health care.

- TABOR requires large cuts in public services, including services that are important to a healthy business climate. TABOR subjects the state budget to a rigid population-plus-inflation formula which fails to account for changes in the economy over time. For instance, had Kansas enacted a TABOR amendment in 1992, the state would have had to cut expenditures by more than one-sixth by this year. Cuts of that magnitude could not be accomplished without affecting education, health care, transportation and public safety — all services that are essential for a competitive business environment because they improve the state's quality of life, strengthen its workforce, and reduce business costs.

KEY FINDINGS

- A proposed TABOR amendment in Kansas would not help the state's economy. It would undermine education, transportation, public safety, and other services important to economic development.
- Business leaders in Colorado, the only state with a TABOR, say it endangers economic growth.
- Differences between Colorado's economic growth rate and that of Kansas are attributable to differences in the states' geographies, populations and economic bases that long predate TABOR.
- Since TABOR's enactment, Colorado's economic growth rate has not improved relative to that of its Rocky Mountain neighbors.

- Under TABOR, every area of expenditures that is important to economic growth is subject to budget pressures. Indeed, long-term expenditures on infrastructure and workforce development, as well as measures that can prevent future problems such as public health expenditures, may be most in danger of cuts. Because TABOR requires spending cuts every year, the state's immediate needs — as well as court-mandated or federally mandated expenditures — would tend to take precedence over longer-term investments, even if those longer-term investments contain the promise of better returns in terms of state economic development.

As it turns out, Colorado's economic performance since TABOR has been comparable to those of other Mountain states – just as it was prior to TABOR.

TABOR proponents in Kansas continue to use Colorado's economic performance as a reason to enact TABOR in Kansas. This ignores Colorado business leaders who say that TABOR has hurt their state's economy. But even if Colorado's economic performance had been extraordinary since TABOR's enactment (which on the whole it has not been, as described below), it would be irrelevant to the present Kansas debate over TABOR.

- Kansas is not Colorado. The two states have different geographies — Colorado is largely mountainous, Kansas mostly flat — and different natural resources. Their economic histories are different as well: Kansas was a manufacturing and agricultural center long before Colorado had any substantial population at all, but the construction of several U.S. military bases in Colorado during and after World War Two led to a booming high-tech sector and a younger, more educated population — differences which predate TABOR and persist to this day.

- Colorado's economy has not improved under TABOR. To see whether TABOR has made a difference in Colorado's economy, it is helpful to compare Colorado to its Rocky Mountain neighbors, none of which have a TABOR amendment. As it turns out, Colorado's economic performance since TABOR has been comparable to those of other Mountain states — just as it was prior to TABOR. Among the eight Mountain states, Colorado's job creation in the 12 years since TABOR's enactment (1992-2004) ranked 5th — the same as its ranking in the previous 12 year period (1980-92). Similarly, Colorado's ranking among Mountain states for per-capita personal income growth was the same in the 12 years before TABOR as in the 12 years since.

- Colorado's economic boom actually ended in 2001. Indeed, from 2001 to 2004, Colorado's per capita income growth was lower than any other state in the country. The state's economy has only just begun to recover. These recent struggles demonstrate that TABOR is far from an economic panacea.

Business Leaders in Colorado Say TABOR Has Hurt Their State's Economy

In Colorado, the nation's only state with a TABOR amendment and the model for the Kansas proposal, business leaders say TABOR is already hurting the state's economy and threatens more harm in the future.

These business leaders' concerns focus on the state's inability under TABOR to finance public services adequately.

- "For businesses to be successful, you need roads and you need higher education, both of which have gotten worse under TABOR and will continue to get worse," says Tom Clark, Executive Vice President of the Denver Metro Chamber of Commerce.[1]

- "[Business leaders] have figured out that no business would survive if it were run like the TABOR faithful say Colorado should be run — with withering tax support for college and universities, underfunded public schools and a future of crumbling roads and bridges," says Neil Westergaard, Editor of the Denver Business Journal.[2]

- "The business community has said this is not good for business, and this is not good for Colorado," says Gail Klapper, director of the Colorado Forum, an organization of 60 leading CEOs.[3]

Since education is the single largest area of state spending, it is hard to image that TABOR would not force cuts in state education expenditures.

Under TABOR, Services Important to Business Would Be Cut

An analysis of TABOR's potential impact in Kansas confirms that it would reduce sharply the funding of services, including those important to business development.

The required cuts would be so large that it is unlikely that any major area of the state budget would be exempt. Had a TABOR been in effect in Kansas since 1993, by this year the state would have had to have cut 19 percent or $890 million from the 2005 state general fund budget.[4] Since 94 percent of the state's budget funds transportation, education, public safety, and health care, it would not be possible for all of those areas to be protected. More likely, they would all be hit to at least some degree.

A healthy business climate requires adequate spending in all of those areas. For instance, a well-educated and well-trained workforce is essential to business success in the modern marketplace. Good schools can also attract highly qualified workers who are looking for a good place to raise a family to a particular state or community. As site selection consultant Robert M. Ady of Deloitte & Touche/Fantus Consulting has said, "The single most important factor in site selection today is the quality of the available work force."[5] Since education is the single largest area of state spending, it is hard to image that TABOR would not force cuts in state education expenditures.

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1 Daniel Franklin and A.G. Newmyer III, "Is Grover Over?," *Washington Monthly*, March 2005

2 Neil Westergaard, "Business folks fed up with TABOR worship," *Denver Business Journal*, July 22, 2005.

3 Will Shanley, "State businesses unite to urge TABOR deal," *The Denver Post*, March 9, 2005.

4 David Bradley, *A State of Decline: What a TABOR Would Mean for Kansas*, Center on Budget and Policy Priorities, September 12, 2005, www.cbpp.org/9-12-05sfp.htm.

5 Quoted in "Proceedings of a Symposium on the Effects of State and Local Public Policies on Economic Development," *New England Economic Review*, March/April 1997, p. 77.

Similarly, businesses rely on sound transportation systems to transport goods and labor and to get their products to market; poorly maintained roads and bridges, traffic congestion, poor air- and river-transport facilities, or other weaknesses of infrastructure impede commerce. Surveys of business executives consistently find that the ability to get goods to market is one of the most important factors in business choices. But over time, TABOR would force cuts in infrastructure expenditures.

To prosper, businesses also need safe and secure work environments. Adequate public safety investments — in police, fire, and emergency services — help keep firms' insurance rates down, thereby reducing the cost of doing business. Health care, too, is crucial to business climate. Not only is a healthy workforce important to economic growth, but state expenditures on health care through the Medicaid program bring in matching federal dollars. Those matching federal dollars, in turn, generate millions of dollars for state economies.[6]

Smaller areas of state expenditure may also be important to economic growth — and may also be threatened by TABOR. The cuts that would have been required in 2005 had Kansas had a TABOR, for instance, equal more than 8.5 times the state's entire budget for economic development and agriculture put together.

TABOR is a blunt instrument that does not specify which areas of the budget must be cut. Because it is based on a rigid formula that with each passing year falls further and further short of meeting the state's needs, state budget decisions are likely to focus on protecting existing services. What may be most at risk under TABOR is longer-term investments — that is, expenditures that are costly in the short-term but may have important payoffs in the long-term. In Colorado, highway maintenance has been deferred and public health expenditures like immunizations for children have been curtailed, allowing short-term budget savings but threatening the state's long-term fiscal and economic performance. TABOR does not increase the state's ability to make investments that are cost-effective in the long-term; if anything, it reduces that ability.

Kansas Is an Average Tax State

Kansas presently collects a level of revenue that is average among the 50 states. Using the latest available U.S. Census Bureau data, the Rockefeller Institute of Government finds that among the 50 states Kansas has the 26th highest level of state and local taxes per capita and the 26th highest level of state and local taxes as a share of personal income. (These Census data are widely recognized as the only comprehensive survey of state and local government finances that allows for state to state comparisons.).

Using a slightly broader measure – total general revenue -- Kansas has the 34th highest level of total state and local general revenue per capita, and the 35th highest level of total state and local general revenue as a share of personal income.

Source: Rockefeller Institute of Government, *State Fiscal Rankings*, http://rfs.rockinst.org/data/fiscal.

TABOR Does Not Explain the Economic Differences Between Kansas and Colorado

Colorado is the only state in the nation with a TABOR. Supporters of a Kansas TABOR point to Colorado's economic performance, particularly its

[6] Kaiser Commission on Medicaid and the Uninsured, *The Role of Medicaid in State Economies: A Look at the Research*, April 2004, www.kff.org/medicaid/7075a.cfm.

TABLE 1. AVERAGE ANNUAL INCREASE IN TOTAL POPULATION			
	1970s	**1980-1992**	**1992-2004**
Kansas	0.5%	0.6%	0.6%
Plains States	0.5%	0.3%	0.7%
Colorado	2.9%	1.6%	2.3%
Mountain States	3.2%	1.7%	2.2%

Source: U.S. Bureau of the Census.

performance in the second half of the 1990s, to support their contention that TABOR will improve a state's economy. But Kansas is a very different place from Colorado, with very different industrial structures, populations, and resources, so even if TABOR worked for Colorado, there is little reason to think it would work for Kansas. Moreover, TABOR *hasn't* actually worked for Colorado: compared to other Rocky Mountain states that do not have TABOR, Colorado has fared no better and no worse than it did before enacting TABOR. In fact, in the last few years, Colorado has fared very poorly.

Regional Differences between Kansas and Colorado

Colorado and Kansas' economies have not had the same economic performance in the last few decades, but there is no reason to think that TABOR was the primary driver — or even an important driver — of those differences. There are a host of other, more deeply rooted explanations for the differences between the two states.

The simplest explanation is that Kansas is a Great Plains state, with an economy most similar to that of its Plains neighbors: Iowa, Missouri, Nebraska, North Dakota, Minnesota, and South Dakota. Colorado, though it shares a border with Kansas, is more comparable to other Mountain states, which (according to standard classifications used by the U.S. Census Bureau and other agencies) include Arizona, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming.

For the last 35 years, Kansas economic performance generally has tracked the economies of other Plains states, while Colorado has tracked that of other Mountain states. (See Tables 1 and 2.)

TABLE 2. AVERAGE ANNUAL INCREASE IN TOTAL EMPLOYMENT			
	1970s	**1980-1992**	**1992-2004**
Kansas	3.8%	1.4%	1.4%
Plains States	3.3%	1.4%	1.6%
Colorado	5.5%	2.1%	2.6%
Mountain States	5.5%	2.1%	2.8%

Source: Bureau of Labor Statistics.

Structural Differences Between Kansas and Colorado

Why have the economic experiences of the Plains and Mountain states — and Kansas and Colorado specifically — been so different? The reason is that their natural resources, their human resources, and their industrial structures are so different. Compared with Kansas, Colorado is a more urban and suburban state with smaller agricultural and manufacturing sectors, larger tourism and high-tech industries, and fewer retirees.

- Kansas has a fairly typical Midwestern economy, with substantial reliance on manufacturing and agriculture. Those two sectors account for more than 17 percent of Kansas' current economic output, compared with only 8 percent in Colorado, according to Bureau of Economic Analysis data for 2003. Colorado's economy is more high tech. Professional and technical services, such as software publishing, computer design, management consulting, and real estate services account for only about 27 percent of Kansas' economic output, but for nearly 40 percent of Colorado's. (These differences have deep historical roots, as described below.)

- Colorado's natural resources — its mountains and ski resorts — have enabled it to take advantage of sharp increases in tourism, travel, and recreation expenditures. Colorado's share of employment in travel-related industries is nearly three times as large as that of Kansas' share.

- Kansas also has a more elderly population — with 13 percent of the population over 65, compared with 9.8 percent of the population in Colorado. This means that Colorado can draw workers from a larger share of its population. And fewer Kansans have college educations than Coloradoans, 30 percent compared with 36 percent, although both states are above the national average.

Economic Differences Between Kansas and Colorado Emerged Long Before TABOR

The differences between Kansas and Colorado are deeply rooted and long predate TABOR. Historical patterns of development put Kansas and Colorado on very different economic paths, with Kansas developing an economic base that was deeply rooted in agriculture and manufacturing and Colorado developing an industrial structure based more on services, including trade, construction, and research and development. Nearly half a century ago, Colorado's economic makeup was already structured for a higher growth future than Kansas'. By the late 1950s, BEA data show that more than one-third of Kansas' earnings came from farming and manufacturing, while just one-fifth of Colorado's earnings were generated from these two sectors.

Colorado's natural resources – its mountains and ski resorts – have enabled it to take advantage of sharp increases in tourism, travel, and recreation expenditures.

As in other states with similar economic bases, Kansas' manufacturing and agriculture sectors since at least the 1950s have experienced relatively slow growth, in part as a result of increasing global trade in manufactured goods and agricultural products. Colorado's economy — measured in total personal income — overtook that of Kansas in 1967, some 25 years before TABOR's enactment.

Meanwhile, Colorado benefited from a confluence of factors that produced high economic and population growth in the post-World War II period. A pair of recent Federal Reserve Bank of Kansas City studies describe how Colorado's economy developed as it did.

TABOR could actually make it harder for Kansas to reshape its economy to look more like Colorado's.

- The U.S. military opened research centers in several states in the 1940s and 1950s, including large facilities in Colorado, such as the North American Aerospace Defense Command (NORAD) and the United States Air Force Academy. As noted in one of the studies, these military institutions "attracted and produced scores of scientists, engineers, and computer specialists over the years, many of whom, in time, have started high-tech businesses of their own." Due to this early military research influence, Colorado Springs now has the highest concentration of high-tech workers of any medium sized metropolitan area in the country. [7]

- This heavy military presence, along with the presence of research universities like Colorado State University, led to the establishment of high-tech firms such as Hewlett-Packard (which built its first non-California manufacturing plant in Loveland, Colorado, in 1960s) and Agilent Technologies, both of which benefited from the nationwide high-tech boom in the 1980s and 1990s. [8]

These long-term trends have not changed in the post-TABOR period. Even before TABOR, Colorado had more college graduates, more under-65 workers, a larger high-tech sector, smaller agricultural and heavy manufacturing sectors, and more tourism and travel revenue than Kansas. With or without TABOR, Colorado was going to have a stronger economy than Kansas.

The most recent study of employment and pay growth by the Federal Reserve Bank of Kansas City confirms the importance of industrial structure in explaining growth and illustrates why fiscal policy is unlikely to change the employment and pay outlook in Kansas. As the study notes, "[I]n general, states with a more favorable industrial structure than the nation have high concentrations in industries expected to add jobs rapidly and low concentrations in industries projected to reduce employment or add jobs slowly."[9]

TABOR could actually make it harder for Kansas to reshape its economy to look more like Colorado's. As described above, government-funded high-tech research, and the ensuing expansion of Colorado's highly educated workforce, appears to have sparked Colorado's boom.[10] Cutting K-12, higher education, and other expenditures —

[7] Chad Wilkerson, "How High Tech Is the Tenth District?," Federal Reserve Bank of Kansas City, *Economic Review*, Second Quarter 2002, p.15 The Federal Reserve's Tenth District includes both Colorado and Kansas.
[8] Wilkerson, p. 17
[9] Chad Wilkerson, "What Do Expected Changes in U.S. Job Structure Mean for States and Workers in the Tenth District?," *Economic Review*, Second Quarter 2005, Federal Reserve Bank of Kansas City.
[10] As described below, these features seem to have continued to underpin Colorado's economy in the 1990s, even as Colorado cut back on expenditures for K-12 education, public colleges and universities, and other investments. As noted in the comments of the business leaders, however, the future is likely to be less rosy if TABOR is maintained in Colorado.

TABLE 3. ECONOMIC INDICATORS: AVERAGE ANNUAL CHANGE, 1992-2004		
	Job Growth	**Per Capita Personal Income***
Arizona	3.8%	1.5%
Colorado	**2.6%**	**2.0%**
Idaho	2.9%	1.3%
Montana	2.2%	1.7%
Nevada	5.0%	1.1%
New Mexico	2.3%	1.5%
Utah	3.1%	1.5%
Wyoming	1.8%	2.3%
Mountain States	**2.8%**	**1.5%**

* Inflation adjusted. Sources: Bureau of Economic Analysis, Census Bureau, Bureau of Labor Statistics.

as TABOR would require — could hamper any attempt by Kansas to follow Colorado's lead. As the Federal Reserve study says:

> [S]tates … have many options to improve their prospects for both quantity and quality of future job growth, primarily by acting to increase the quantity and quality of their labor force. For example, states can make themselves more attractive to high-skill workers by enhancing their quality of life and by providing the infrastructure necessary for the jobs of the future. States can also increase the prospects of their current and future workers by focusing on improving educational institutions and worker training programs.[11]

TABOR Has Failed to Noticeably Improve Colorado's Economic Performance

If Colorado's economic growth exceeds that of Kansas, it has much more to do with the fundamental differences between the two states than it has to do with TABOR. In fact, there is no particular reason to think that TABOR has improved Colorado's economy.

A 2003 study conducted by the well-regarded, nonpartisan Colorado Legislative Council staff found no relationship between TABOR's enactment and the state's economic performance. According to the study, Colorado's economic growth was a result of economic factors that predated TABOR and its geographic location. The study specifically found that "there is no evidence that TABOR was responsible for the economic boom of the 1990s."[12]

TABLE 4. COLORADO RANKINGS AMONG MOUNTAIN STATES		
Average Annual Growth	**1980-1992**	**1992-2004**
Jobs	5th	5th
Per Capita Personal Income	2nd	2nd

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[11] Wilkerson (2005), p. 89-90.

[12] Colorado Legislative Council, *House Joint Resolution 03-1033 Study: TABOR, Amendment 23, the Gallagher Amendment, and Other Fiscal Issues*, September 2003, p. 31.

TABLE 5. CHANGE IN PER- CAPITA PERSONAL INCOME			
	2001	**2004**	**Change**
Arizona	$ 27,963	$ 28,609	2.3%
Colorado	**$ 36,793**	**$ 36,109**	**-1.9%**
Idaho	$ 26,688	$ 26,839	0.6%
Montana	$ 26,319	$ 27,666	5.1%
Nevada	$ 32,771	$ 33,783	3.1%
New Mexico	$ 25,696	$ 26,154	1.8%
Utah	$ 26,465	$ 26,946	1.8%
Wyoming	$ 32,323	$ 34,199	5.8%
Mountain States	**$ 27,326**	**$ 28,138**	**2.1%**
Adjusted for inflation. Sources: Bureau of Economic Analysis, Census Bureau, and Bureau of Labor Statistics.			

This conclusion is supported by a comparison of Colorado's economic performance to that of other Mountain states, both pre- and post-TABOR. This comparison shows that Colorado's economic performance since TABOR's enactment has been fairly typical among Rocky Mountain states, just as it was prior to TABOR's enactment. In other words, it is hard to spot any change in Colorado trends post-TABOR — especially relative to Colorado's neighbors.

Since TABOR's enactment, Colorado's economy has performed roughly the same as that of its Mountain State neighbors. Its job growth was slightly *below* the median for the Mountain States, while per capita personal income growth was above.

Importantly, Colorado's standing on these measures relative to its Rocky Mountain peers hasn't changed at all under TABOR. A comparison of the 12 years preceding TABOR's implementation to the 12 years since its enactment shows that Colorado's economic growth was the same in relation to that of its neighbors: among the Mountain States, Colorado ranked 5th in job growth and 2nd in per capita personal income growth during both periods. (See Table 4.)

In describing Colorado's economic growth under TABOR, the exact choice of timeframe is important. An analysis that focused only on the 1990s, for example, would show the benefits to Colorado of the national economic boom in areas like information services and recreation, but it would miss the remarkable decline in the state's economy that occurred after 2001.

As it turns out, Colorado's *recent* economic performance under TABOR has been particularly poor. Colorado is the only Mountain state to have negative per capita personal income growth from 2001

TABLE 6. JOB GROWTH FROM MARCH 2001 TO AUGUST 2005		
State	**Change in Payroll Employment**	**Percentage Change**
Arizona	211.0	9.27%
Colorado	**-14.2**	**-0.63%**
Idaho	42.3	7.41%
Montana	29.6	7.54%
Nevada	174.8	16.55%
New Mexico	49.7	6.56%
Utah	61.2	5.63%
Wyoming	17.9	7.33%
Mountain States	n/a	**7.37%**

Source: Bureau of Labor Statistics.

TABOR would limit the tools that Kansas policymakers can deploy in order to compete with other states.

to 2004. Among the 50 states, Colorado's personal income per capita growth was lower than any other state during this recessionary time period.

Job growth tells a similar story: Colorado is the *only* Mountain State in which the number of jobs today is *lower* than it was over four years ago.

The bottom line is that, taking the boom and the bust together, Colorado's economic performance since 1992 has not been particularly striking compared with its own economic performance pre-TABOR and compared with the performance of its TABOR-free Rocky Mountain neighbors.

Conclusion

There is no quick and easy way to spark a state's economic growth. Kansas, like other states of the Great Plains with historically strong manufacturing and agricultural sectors, has experienced economic growth somewhat below the national average since at least the 1950s. This trend has continued in recent years, and is predicted to continue for at least the next decade. The slow growth of the Plains States has a great deal to do with changes in the U.S. economy — specifically, shifts away from agriculture and manufacturing toward the production of services like tourism and software design — and very little to do with state fiscal policy.

This poses a major challenge for Kansas, and it will require methodical policymaking over a long period of time for the state to bring its economic growth rate in line with the growth of Colorado and other states. But much of that necessary policymaking cannot occur under TABOR. TABOR would limit the tools that Kansas policymakers can deploy in order to compete with other states. New investments in education, health care, transportation, public safety, and economic development would be all but impossible under TABOR. Kansas' fiscal policy would be driven by a rigid formula entirely unrelated to economic development. As a result, TABOR would require the state to compete for jobs and growth with both hands tied behind its back.