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Kansas' Tax Cut Experience Refutes Economic Growth Predictions of Trump Tax Advisors

By Michael Mazerov

Presidential nominee Donald Trump has outlined a revised tax cut plan,[1] and Heritage Foundation economist Stephen Moore — along with long-time tax-cut advocates Lawrence Kudlow and Arthur Laffer, among others — advised him on the changes to make to his original proposal.[2] The Tax Policy Center estimated that Mr. Trump's original plan would lose almost $10 trillion over ten years.[3] In various interviews, Moore has stated that the revised plan will lose considerably less revenue, and he indicated that will come in part through "dynamic scoring" — estimating the extent to which a tax cut will boost economic growth and, in turn, reduce its revenue loss because individuals and businesses will have more taxable income than otherwise and thus pay more taxes.[4] Moore, whom the Trump campaign identified on August 5th as one of its economic advisors,[5] has claimed the Trump tax proposals will have very large economic effects.[6]

But those who will evaluate the revised Trump tax cut proposal should keep something in mind: Moore and Laffer were principal architects of Kansas Governor Sam Brownback's massive tax cuts,

1 https://www.donaldtrump.com/positions/economic-vision. Neil Irwin and Alan Rappeport, "Donald Trump Adopts G.O.P. Tax Cuts, but Balks at Trade Pacts," *New York Times*, August 8, 2016.

2 "Stephen Moore: Trump will grow the economy," Fox News, July 19, 2016, http://video.foxnews.com/v/5042322373001/stephen-moore-trump-will-grow-the-economy/?#sp=show-clips.

3 Jim Nunns *et al.,* "An Analysis of Donald Trump's Tax Plan," Tax Policy Center, December 22, 2015, http://www.taxpolicycenter.org/publications/analysis-donald-trumps-tax-plan/full.

4 In an August 8 Fox News interview, Moore said that the revisions to the initial Trump plan reduced its revenue loss by approximately two-thirds. He attributed that to an "explosive pro-growth element," the 15 percent top tax rate for all corporate and non-corporate business income. http://video.foxnews.com/v/5076176980001/campaign-adviser-explains-trumps-new-plan-for-tax-brackets/#sp=show-clips.

5 Patricia Cohen, "Trump's Economic Team: Bankers and Billionaires (and All Men), New York Times, August 5, 2016; http://www.nytimes.com/2016/08/06/business/economy/donald-trump-economic-team.html.

6 When asked in an August 5th Bloomberg News interview how the plan could avoid increasing the national debt, Moore replied that the proposed "overhaul of the tax system . . . will be one of the biggest tax cuts since Ronald Reagan. And we know what happened when Ronald Reagan cut taxes, we had a boom in the economy. . . ." http://mms.tveyes.com/MediaCenterPlayer.aspx?u=aHR0cDovL21lZGlhY2VudGVyLnR2ZXllcy5jb20vZG93bmxvYWRnYXRld2F5LmFzcHg%2FVXNlcklEPTMyOTI2MyZNRElEPTY0ODY0NTMmTURTZWVkPTIwOTMmVHlwZT1NZWRpYQ%3D%3D

and their predictions that those tax cuts would spur an "immediate" Kansas economic boom have proved strikingly inaccurate.

Predicting an "Immediate" Economic Boost in Kansas

Moore and Laffer were principal architects of the tax cut plan that Kansas Gov. Sam Brownback recommended and the legislature enacted in revised form in May 2012. Moore described his and Laffer's role in developing the plan, its key features as enacted, and its objective this way:

> A few years ago, Arthur Laffer and I advised Kansas Gov. Sam Brownback (R) on an aggressive tax rate reduction plan to help revive an underperforming Kansas economy. The end result was a reduction in income tax rates (the top rate fell to 4.5 percent from 6 percent, with further reductions planned for future years) and a feature that reduces taxes on passthrough income earned by small businesses to zero. Our goal, and one shared by Brownback, is to make Kansas the 10th state without an income tax.[7]

A few months after the plan's enactment but before it had taken effect (which occurred on January 1, 2013), Laffer and Moore predicted it would have a "near immediate" positive impact on the state's economy:

> [O]ur state analysis is intended to help advise lawmakers on the best pro-growth policies to help their citizens. They cannot, alas, change the weather or where their state is located, or have much of an impact on how much oil they have in the ground, but they certainly can change their taxes, how much state and local governments spend, whether their state is a right-to-work state and how generous their state's welfare system is. The quality of schools also matters as does the state's highway system, but it takes years for those policies to pay dividends, while *cutting taxes can have a near immediate and permanent impact, which is why we have advised Oklahoma, Kansas, and other states to cut their income tax rates if they want the most effective immediate and lasting boost to their states' economies.*[8]

In May 2013, only a few months after the plan was implemented, Laffer and Moore claimed it was already having a measurable positive impact on the state's economy:

> While the Kansas tax reform plan has received criticism from both sides of the political spectrum, the *resulting economic growth* in Kansas speaks for itself. The plan is not perfect, but it is a bold step toward pro-growth tax reform that will *certainly continue to unlock more of Kansas' economic potential*.[9]

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[7] Doug Sheppard, "Moore and Leachman Debate Kansas Tax Cuts," *State Tax Notes*, October 13, 2014, p. 89, http://www.cbpp.org/sites/default/files/atoms/files/Moore-and-Leachman-Debate-Kansas-Tax-Cuts.pdf.

[8] Arthur Laffer and Stephen Moore, "Taxes Really Do Matter: Look at the States," Laffer Center for Supply-Side Economics, September 2012, p. 17, http://www.laffercenter.com/wp-content/uploads/2012/09/2012-09-TaxesDoMatterLookAtStates-LafferCenter-Laffer-Moore.pdf. Emphasis added.

[9] Arthur B. Laffer, Stephen Moore, and Jonathan Williams, "Rich States, Poor States," 6th Edition, American Legislative Exchange Council, 2013, p. 3. Emphasis added.

Almost two years after its implementation, Moore continued to assert that "what is irrefutable from the evidence in the states is that strategic tax rate reductions can *ignite* growth and employment."[10]

What Actually Happened in Kansas

In fact, the tax cut failed to boost the Kansas economy:

- Since it took effect in January 2013, total employment in Kansas has risen only 2.6 percent, compared to 6.5 percent nationally. Private sector employment in Kansas has risen 3.5 percent, compared to 7.6 percent nationally.
- The state's economy has grown less than half as fast as the national economy; Kansas' gross domestic product (GDP) grew 4.8 percent from the end of 2012 through the first quarter of 2016, while national GDP rose 11.9 percent.
- Kansas' share of newly opened business establishments in the United States has actually declined slightly rather than increased.[11]

Moreover, the Kansas tax cut package has had a deleterious impact on the state's financial stability and the provision of critical services. For example:

- Personal income tax revenues in the fiscal year ending June 30, 2016 (fiscal year 2016) were almost $700 million lower than those received in fiscal year 2013,[12] when the tax cut first took effect, even though the economy nationally is stronger in 2016 than it was in 2013. Receipts dropped immediately by slightly more than $700 million (24 percent), and the meager economic growth that occurred in Kansas from 2014 to 2016 boosted collections by only $30 million, or less than 2 percent.[13]
- Total General Fund revenues in 2016 were $570 million below 2013 levels, despite significant sales and cigarette tax increases enacted to partially offset the income tax losses.[14] The General Fund's ending balance fell from $709 million in 2013 to $40 million in 2016 (just 0.7 percent of General Fund spending).[15] That's important because Kansas' General Fund balance is its "rainy day fund."[16] Should a recession hit and tax revenues shrink as household

[10] Sheppard, p. 90. Emphasis added.

[11] The source of all three statements is CBPP analysis of Bureau of Labor Statistics and Bureau of Economic Analysis data.

[12] The rest of the years referenced in this set of bullets are fiscal years as well.

[13] Duane Goossen, "Income Tax Cuts Broke the Kansas Budget," Kansas Center for Economic Growth, July 13, 2016, http://realprosperityks.com/goossen-income-tax-cuts-broke-kansas-budget/.

[14] Goossen.

[15] Kansas Division of the Budget, "Comparison Report, FY 17," July 20, 2016, p. 12, http://budget.ks.gov/publications/FY2017/FY2017_Comparison_Report--7-20-2016.pdf.

[16] Only in May 2016 did Kansas enact legislation to establish a true "rainy day fund" separate from the General Fund. Given the depletion of the General Fund balance and the ongoing imbalance between revenues and expenditures resulting from the 2012 tax cuts, it is unclear when the state may actually be able to begin depositing meaningful amounts of money into the new rainy day fund. Robert Zahradnik and Steve Bailey, "Kansas Becomes the 47th State to

incomes and retail sales fall, the state will need to cut programs or enact tax increases almost immediately because it will have very little savings to tap.

- The General Fund's depletion occurred even though the state transferred to the Fund substantial tax revenues that were collected to finance road maintenance and construction.[17] The resulting reduction in infrastructure funding has forced the state to postpone numerous highway projects indefinitely.[18]
- Because the tax cuts leave less state revenue with which to repay people who lend the state money by buying its bonds, Kansas' bond rating has been downgraded twice — in 2014, and most recently on July 26, 2016.[19] Lower bond ratings mean that the state will likely have to pay a higher interest rate on future borrowings, raising the cost of infrastructure projects such as school construction and road building.

Moore's Reaction to the Results

Faced with these facts, Stephen Moore has:

- **Substantially backpedaled from the claim that state tax cuts have a "near immediate" positive impact on state economic growth**. Some 18 months after the tax cut's implementation, Moore wrote, "It's a little early to tell about Kansas. A 1.5 percentage point cut isn't going to turn this Midwestern state into Beverly Hills or Boca Raton. If Kansas can continue to get the rate close to zero, we would expect to see some strong growth effects."[20] Moreover, in downplaying the significance of the first rate cut, he failed to acknowledge that the tax package had, in fact, dropped the tax rate to zero for every one of the state's self-employed people and all of its owners of a partnership, S corporation, or limited liability company.

Create a Rainy Day Fund," Pew Charitable Trusts, May 18, 2016, http://www.pewtrusts.org/en/research-and-analysis/analysis/2016/05/18/kansas-becomes-the-47th-state-to-create-a-rainy-day-fund.

[17] According to a December 2015 article in the *Kansas City Star*, "From 2011 through the state's 2017 budget year, transfers labeled 'extraordinary' from the highway fund to the general fund or to state agencies are expected to hit $1.4 billion. That's on top of more than $700 million in transfers in that same period that are labeled 'ordinary or historically routine' – for a total of $2.1 billion." Edward M. Eveld, "Kansas Will Pay the Price for Diverting Money from Highway Fund, Some Lawmakers Say," *Kansas City Star*, December 28, 2015, http://www.kansascity.com/news/politics-government/article51972555.html.

[18] Micheal Mahoney, "Kansas Budget Cuts to Put 25 Highway Projects on Hold," KMBC TV, May 19, 2016, http://www.kmbc.com/news/kansas-budget-cuts-to-put-25-highway-projects-on-hold/39631246.

[19] Bryan Lowry, "S&P Downgrades Kansas Bond Rating; Brownback Pushes Back," *Kansas City Star*, August 6, 2014, http://www.kansas.com/news/article1158214.html; S&P Global Ratings, "Kansas Downgraded To 'AA-' From 'AA' On Structural Budget Pressures, Drawdowns In Reserve Levels; Outlook Stable," July 26, 2016, https://www.standardandpoors.com/en_US/web/guest/article/-/view/type/HTML/id/1681942. Standard and Poor's analyst David Hitchcock stated, "The downgrade reflects what we believe to be structural budget pressures, as reflected by drawdowns in reserve levels to what we consider very low levels during a period of national economic expansion, despite four rounds of midyear adjustments in fiscal 2016." S&P also stated: "We also view a substantial increase in transfers from Kansas' transportation fund to pay general fund operations in recent years as an additional sign of budgetary stress."

[20] Sheppard, p. 93.

- **Doubled-down on his tax policy recommendations**. "Our advice to Brownback is full speed on the tax cuts," including additional, deep rate cuts scheduled for future years.[21]
- **Used inaccurate data to justify the tax cut.** In a July 2014 *Kansas City Star* op-ed defending the tax cut, Moore provided historical data comparing the job creation record of some states with no income taxes and some with relatively high income taxes.[22] But *Star* columnist Yael T. Abouhalkah's follow-up investigation revealed that Moore used incorrect data and that the accurate data *failed to support his claim* that the no-income tax states he cited experienced better job creation.[23]
- **Continued to selectively and misleadingly cite data to support his claim that the tax cut is leading to improved economic performance in Kansas.** In a February 2016 *Star* op-ed, Moore and Laffer argued that the tax cut package generated a significant boost in Kansas' economy, representing "sweet supply-side revenge for tax cutters in Kansas" against their critics.[24] But Abouhalkah has described in depth how that claim rests on a highly selective and misleading citation of unemployment and job creation data:

> Laffer and Moore correctly state that Kansas' unemployment rate was 6.8 percent when Brownback took office in January 2011. They later celebrate that the most recent unemployment rate for Kansas "is 3.9 percent – the 11th lowest in the nation."
>
> Now for the rest of the story. They left out the fact that Kansas is essentially in the same situation it was five years ago – when it had the country's 12th lowest unemployment rate.
>
> Kansas also was hardly alone in having a reduced unemployment rate since early 2011. The U.S. rate fell over the same period from 9.0 to 5.0 percent.
>
> Proportionately, that was even a little better than Kansas' decline. . . .
>
> Nationally, total nonfarm employment since January 2013 has grown by 5.9 percent – far outpacing Kansas' 3.3 percent growth rate.
>
> Looking at just private-sector jobs, the U.S. growth rate has been 6.9 percent – way above the 4.3 percent of the Sunflower State.
>
> To add insult to injury for Laffer and Moore, who constantly whine about states with steep income taxes, high-tax California and New York have added employment much faster than Kansas.[25]

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21 Ibid.

22 Stephen Moore, "What's the Matter with Paul Krugman? Give Kansas Tax Breaks Time to Work," *Kansas City Star*, July 7, 2014, http://www.kansascity.com/opinion/readers-opinion/as-i-see-it/article685284.html.

23 Deron Lee, "Why One Editor Won't Run Any More Op-eds by the Heritage Foundation's Top Economist," *Columbia Journalism Review*," July 31, 2014, http://www.cjr.org/united_states_project/stephen_moore_heritage_foundation_paul_krugman_kansas_city_star.php.

24 Arthur B. Laffer and Stephen Moore, "Sweet Supply-side Revenge for Tax Cutters in Kansas," *Investor's Business Daily*, February 1, 2016, http://www.investors.com/politics/brain-trust/laffer-and-moore-sweet-supply-side-revenge-for-tax-cutters-in-kansas/.

25 Yael T. Abouhalkah, "In Defending Gov. Sam Brownback's Tax Cuts, Two Economists Bungle the Job," *Kansas City Star*, February 4, 2016, http://www.kansascity.com/opinion/opn-columns-blogs/yael-t-abouhalkah/article58549653.html.