AMERICANS FOR TaxFairness

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MEDIA BACKGROUNDER

ICYMI: KANSAS REBOUNDS AFTER REPEAL OF HUGE TAX CUTS

'Trickle Down' Plan Failed to Spur Growth, Offers Lessons for Federal Tax Policy

WASHINGTON, D.C. – Last week, CNBC named Kansas number 19 on its list of America's Top States for Business, a surprising 16-place jump from its 2018 ranking, making Kansas this year's most improved state. Good news for Kansas, certainly, but the way the Sunflower State made the jump is important for the whole country.

The new ranking comes after an extreme supply-side tax-cut policy that promised growth but provided none was repealed and offers yet another valuable lesson that trickle-down economics doesn't work.

In 2012, the Kansas government cut taxes for the wealthy and eliminated income taxes altogether for more than 100,000 businesses. Conservative Gov. Sam Brownback predicted the cuts would provide a "shot of adrenaline" for the Kansas economy and supporters argued the cuts would "pay for themselves" through a predicted $323 million in higher tax revenues from greater growth.

But that didn't happen—not even close. By early 2017, with the magical extra revenue having failed to materialize, Kansas had suffered through "nine rounds of budget cuts over four years, three credit downgrades, missed state payments," and what The Atlantic called "an ongoing atmosphere of fiscal crisis." Lawmakers tapped into state reserves set aside for future spending, postponed construction projects and pension contributions, and cut Medicaid benefits. In addition, Kansas lagged behind neighboring states with similar economies in "nearly every major category: job creation, unemployment, gross domestic product, taxes collected."

In 2017, Kansas repealed the tax cuts, turning a $350 million deficit into a budget surplus by the end of 2018 and leading to the improved CNBC ranking last week.

All the same claims made earlier in Kansas were made at the end of 2017 by President Trump and Congressional Republicans as they rammed through their own reckless federal tax cuts, which are expected to lose $1.9 trillion over the next 10 years.

We urge you to write an editorial or commentary explaining the lesson of Kansas—that raising adequate revenue from wealthy individuals and businesses to properly fund public services, not recklessly cutting taxes for the rich and corporations, is the true path to prosperity. That message needs to be heard because advocates of tax cuts skewed to the rich continue to insist they strengthen the economy, create more business investment and "pay for themselves," even in the face of evidence like the Kansas example and recent research by the Congressional Research Service (CRS) that the Trump-GOP tax cuts have failed to live up to their many promises.

Among the findings by the CRS:

- Contrary to Treasury Secretary Mnuchin's claim in 2017 that "[t]he (tax) plan will pay for itself with growth," CRS found that "[t]he data appear to indicate that not enough growth occurred in the first year to cause the tax cut to pay for itself…5% or less of the growth needed to fully offset the revenue loss from the Act" has occurred.

- In 2017, President Trump trumpeted that "[m]y Council of Economic Advisors estimates that (the tax cuts) would likely give the typical American household a $4,000 pay raise." But CRS determined that the CEA pay-hike projections—which actually ranged as high as $9,000—were based on the fantastical economic assumption that the tax cuts would boost the economy 3.8 to 8.5 times more than the tax law's entire cost.

- In contrast to President Trump's evident satisfaction last year that "4.2 million hard working Americans have already received a large Bonus and/or Pay Increase because of our recently Passed Tax Cut & Jobs Bill....and it will only get better!", CRS found that "…[R]elatively little [of the corporate tax cuts] was directed to paying worker bonuses." … "One organization [Americans for Tax Fairness] that tracks these bonuses has reported a total of $4.4 billion. With US employment of 157 million, this amount is $28 per worker. This amount is 2% to 3% of the corporate tax cut, and a smaller share of repatriated funds." Instead, CRS found that much of the tax cuts were "used for a record-breaking amount of stock buybacks, with $1 trillion announced by the end of 2018. A similar share of repurchases happened in 2004, when a tax holiday allowed firms to voluntarily bring back earnings at a lower rate."

- While Speaker Paul Ryan stated on his website that the TCJA would put an end to incentives for American corporations to offshore jobs, and Trump tax advisor Steven Moore claimed the tax law would make America more attractive as an investment destination, CRS determined "the evidence does not suggest a surge in [net] investment from abroad in 2018."

Also, just a slim five percent rise in capital spending is predicted for 2019, down from last year's six percent gain, Kiplinger reported: "This is a small annual gain compared with past decades when double-digit increases in capital spending were relatively common."

Meanwhile, the White House predicts a $1 trillion deficit for FY 2019, the first time the U.S. deficit has exceeded the $1 trillion level since the depths of the Great Recession, caused in part by the "unprecedented drop" in corporate tax revenue last year, the first full year of the Trump-GOP tax cuts.

As one columnist noted, "The tax cut that Trump said would be 'rocket fuel' for the economy looks more like regular unleaded." Americans for Tax Fairness, along with labor unions and other groups, have urged Congress to investigate the failed promises of the Tax Cuts and Jobs Act. You can add impetus to the calls for such an investigation by writing about this important topic now.

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