

Moore and Leachman Debate Kansas Tax Cuts

by Doug Sheppard

Stephen Moore is the chief economist at the Heritage Foundation. Michael Leachman is the director of state fiscal research with the State Fiscal Policy Division of the Center on Budget and Policy Priorities.

In an in-print debate moderated by *State Tax Notes* commentary editor Doug Sheppard, Moore and Leachman go head-to-head on the merits of the Kansas tax cuts enacted in 2012 and 2013. Moore, who advised Gov. Sam Brownback (R) on the reductions, says it's too early to evaluate them, but Leachman counters that the cuts are already having an adverse impact that could worsen over time.

Kansas tax cuts enacted in 2012 and 2013 not only have had implications for the state, but have sparked a national conversation on the merits of tax reductions in general.

In 2012 Kansas Gov. Sam Brownback (R) signed legislation (HB 2117) that eliminated numerous tax breaks for individuals, exempted passthrough business income from taxation, and reduced and reconfigured the personal income tax. Under the legislation, the 6.45 percent top bracket on income over \$30,000 for single filers was repealed, the 6.25 percent middle bracket for income between \$15,000 and \$30,000 for single filers was reduced to 4.9 percent, and the 3.5 percent bottom bracket for income below \$15,000 for single filers was cut to 3 percent.

The personal income tax was cut further in 2013. Another bill signed by Brownback (HB 2059) phases in reductions of the 3 percent and 4.9 percent rates established by the previous bill, reducing rates to 2.7 percent and 4.8 percent in tax year 2014, 2.7 percent and 4.6 percent in 2015, 2.4 percent and 4.6 percent in 2016, 2.3 percent and 4.6 percent in 2017, and 2.3 percent and 3.9 percent in 2018. After that, relief may also be triggered under a formula if specified general fund revenue grows by more than 2 percent from the previous year. To address revenue issues, HB 2059 set the sales tax rate — which had been scheduled to fall to 5.7 percent — at 6.15 percent, effective July 1, 2013.

Those same revenue issues, which HB 2059's sales tax provision hoped to address, have been panned by critics, who say that proponents' promises of an immediate economic benefit have not only not materialized, but have also led to cuts in funding for schools and other services. Supporters, however, contend that it's still too early to write off the Kansas tax cuts.

With the discussion spilling over from academia into cable TV, we thought it would be interesting to do a more thorough, analytical debate of the Kansas tax cuts. In one corner is Stephen Moore of the Heritage Foundation, one of Brownback's advisers on the tax cut package. In the other is one of its most vocal critics, Michael Leachman of the Center on Budget and Policy Priorities, who has penned several blogs and papers in opposition. For the debate, each participant submitted an opening statement, asked his opponent five questions, answered his opponent's questions, responded to his opponent's answers, and then wrote a final statement. *State Tax Notes* commentary editor Doug Sheppard moderated.

Moore's Opening Statement



Stephen Moore

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.

Paul Krugman of *The New York Times*, MSNBC, and others have begun to question whether that plan is working. Krugman says it went awry in Kansas.¹ According to him, "Kansas isn't booming — in fact, its economy is lagging." Kansas shows that "tax cuts don't have magical powers," he concludes. He also argues that myriad factors influence economic growth in a state and that it's hard to isolate one factor as a growth inducer. Others argue that the Kansas

¹Krugman, "Charlatans, Cranks and Kansas," *The New York Times*, June 30, 2014, at A19.

experience proves that tax rates don't matter in terms of promoting economic growth.

It's true, tax cuts don't have magical powers, and it is an oft-repeated caricature by the left that Laffer and I and others believe that to be true. In our book, *An Inquiry into the Nature and Causes of the Wealth of States*, we find dozens of reasons why some places grow and others lag behind — and taxes is only one of them.

But what is irrefutable from the evidence in the states is that strategic tax rate reductions can ignite growth and employment.

Here is what the national data tell us: 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.

This does not mean all states that cut taxes have growth, or that all states with high taxes grow slowly. It means there is a strong propensity for low-tax and tax-cutting states to grow. Period.

This is a problem for blue states with high tax rates — places such as New York, Massachusetts, Illinois, and California that have been following the left's advice of keeping taxes on the rich high in order to promote "fairness." The problem is that in most but not all cases, the high-tax states are getting clobbered by tax-cutting states.

State-specific jobs data from the Bureau of Labor Statistics show that in the five-year period beginning in December 2007 (the month the last recession started), Texas gained 497,000 jobs (a 4.7 percent increase) while California lost 491,000 jobs (a 3.2 percent decrease). This is anecdotal, but clearly people don't leave the Golden State for the Longhorn State for the weather. Energy is an abundant resource in Texas and California, but Sacramento restricts its development.

Let's look at the long-term jobs data for the two highest-income tax states of California and New York (including the New York City income tax) versus the two big no-income-tax states of Florida and Texas. From 1990 through May 2014, jobs growth in Texas (up 65 percent) and Florida (up 45 percent) dwarfs both California (up 24 percent) and New York (up 9 percent).

Low taxes may not be magical, but they do seem to make places mighty attractive to millions of Americans who are voting with their feet to call these places home.

As for Kansas, who knows how this will turn out? Total job growth has fallen short, but private sector job growth — the growth that matters — has been faster. The tax cut has been in effect for too short a time to measure the impact. Brownback explains what is happening in Kansas with jobs: "We've cut public sector jobs by making government more efficient and ending duplication. That's a good thing."

The Kansas story is still incomplete, and we will see over the next few years whether growth is revived in a state that people have been fleeing for the past decade. Tax revenues

are down, but they are down in most states because of reductions in capital gains receipts from 2013.

Cutting marginal tax rates can be an effective way to attract jobs, workers, and capital into a state. Just as the high U.S. corporate tax rate is inspiring American businesses to move operations out of the United States, we are seeing a steady migration of businesses and workers into low-income-tax states. The big migration is from North to South, where red state Republican governors are gaining competitiveness by lowering tax rates and keeping spending under control. Blue states will have to change tax policies, or the slow bleed of resources out of their states will only accelerate.

Governors and state lawmakers are starting to get it. Liberalism left unchecked creates economic mayhem, high unemployment, poverty, and dead zones like Detroit, Newark, and Rochester. Blue states and cities have two options: Lower taxes and regulations to grow the economy or continue to bleed to death.

Leachman's Opening Statement



Michael Leachman

Kansas's experiment with massive income tax cuts as an economic catalyst isn't working very well so far, and that should concern other states considering a similar strategy.

Kansas's tax cuts took effect about 18 months ago, in January 2013. Their impact? They've caused large revenue losses, extending the recession's damage to important state services. There's no sign that the tax cuts have boosted

the state's economy and no reason to believe they will in the future.

Tax cuts caused large revenue losses. This point is pretty obvious, but it often gets obscured in these debates. So here are the numbers: Kansas's Legislative Research Department (LRD) estimated that in the current fiscal year, the tax cuts are costing about \$600 million — 9 percent of the state's general fund revenues. That cost, LRD said, will rise rapidly in the future as additional scheduled tax cuts phase in, hitting 16 percent of revenues four years from now. And the cost will only grow from there as even more rate cuts kick in.

As striking as these estimates are, they likely underestimate the tax cuts' actual cost because collections are coming in far below LRD's projections. This already has created a gaping budget hole that the state has filled largely by drawing down reserves. The state's reserves now are expected to be gone entirely, or nearly so, by the end of the current fiscal year, leaving Kansas — which has no separate rainy day fund

— extremely vulnerable to the next recession. It's no wonder the Moody's bond rating agency recently downgraded Kansas bonds.

The large revenue losses extended the recession's damage to important state services. Most states are beginning to restore funding for schools and other areas after years of significant cuts. But in Kansas the situation is much more difficult. Earlier this year, Brownback proposed another reduction in per-pupil general school aid for the upcoming school year, which would have left funding 17 percent below pre-recession levels, adjusted for inflation. (The state supreme court stepped in, ruling that the state was unconstitutionally underfunding its low-income schools, forcing the Legislature to shift more money to schools, but general funding still stands about 15 percent below pre-recession levels.) Funding for other services — colleges and universities, libraries, and courts, for example — also remains way down. And with the state's reserves rapidly disappearing and more tax cuts on the way, funding for schools and other services likely will fall further in future years.

There's no sign tax cuts have boosted the state economy. When he signed the tax cuts into law, Brownback likened them to a “shot of adrenaline into the heart of the Kansas economy.” But 18 months later, there's no sign of adrenaline pumping. Kansas has seen private sector job growth of 2.3 percent since the tax cuts took effect — notably slower than the 3.3 percent growth nationally. And job growth in Kansas after the tax cuts has been slower than job growth in Kansas before the tax cuts. Personal incomes in Kansas have declined modestly, relative to inflation, since the tax cuts were enacted, while they have risen nationally. (Before the tax cuts, personal incomes were rising in Kansas, too.) And so far there's no evidence that Kansas is enjoying exceptional business growth: The number of registered businesses grew more slowly last year than in 2012, the year before the tax cuts, and the state's share of all U.S. business establishments fell last year.

There's no reason to believe the tax cuts will boost the economy in the future. Some supporters of the tax cuts — faced with the discouraging economic data — now say it's too early to judge the results. Brownback, for example, has dropped the “shot of adrenaline” analogy in favor of one less enthusiastic: “It's like going through surgery. It takes a while to heal and get growing afterwards.”

Kansas's economy may well perform better in the future, but the state's own legislative researchers don't see that happening anytime soon. Their latest economic forecast in April projected that Kansas economic growth will lag the United States significantly — this year and next.

That's not too surprising, based on the experience of other states that tried big tax cuts in the past two decades. For instance, the five states with the biggest tax cuts in the 1990s created jobs during the next economic cycle at only one-third the rate of other states, on average. The biggest tax-cutting states also had slower income growth.

This is consistent with volumes of research. There is no consensus among academic experts that cutting state taxes helps state economies. The overwhelming view is that tax rates just don't play a big role in explaining relative state growth rates. As the authors of one recent study in the *Journal of Policy Analysis and Management* wrote in a survey of the economic literature, “It is fair to say that there have been mixed results for the impacts of both taxes and spending on [state economic] growth, depending on model specifications and estimation techniques.” The authors' own statistical analysis found that lower taxes boost state economic growth only in the short run, while the resulting spending cuts reduce growth both in the short and longer term. These findings suggest that the net effect of lower state taxes and lower state spending over time is to reduce jobs, not boost them. “Given our findings, the wisdom of cutting taxes as a way to boost a state economy must be seriously reexamined,” the authors concluded.

Lastly, Kansas's tax cut package included a major provision that is undeniably wasteful and has been widely panned by the Tax Foundation, Tax Analysts' David Brunori, my own organization, and others. This provision — the elimination of taxes on passthrough business income — is unlikely to provoke economic growth for several reasons, including the fact that the sorts of businesses that typically get this tax cut often have no employees besides the owner and no intention of hiring, no matter the circumstances.

Moore's Questions

Moore question 1: How do you explain the much faster job growth of states with low or no income taxes over the last 20 to 30 years? Did this just happen by chance?

Leachman: State economic growth absolutely doesn't happen by chance. No-income-tax Texas's economic growth, for example, has been driven by a combination of factors, including cheap and plentiful land (keeping housing prices low), proximity to Mexico (fueling international trade), high birth rates, and oil and gas resources. Other no-income-tax states also have seen their economies grow because their populations have grown for reasons unrelated to differences in interstate tax levels. (See my answer to question 2.) No-income-tax Nevada's per capita personal income growth since 1990 is the worst in the nation, and fellow no-income-tax Florida's is near the bottom. Meanwhile, the two top performers for per capita personal income growth since 1990 are North Dakota and the District of Columbia, both of which levy income taxes.

Again, the overwhelming view of academic experts controlling for other factors is that tax rates play at best a small role in explaining relative state growth rates.

Kansas can't duplicate Texas's or Florida's growth rates by eliminating income taxes, because what drove growth in Texas and Florida cannot be exported to Kansas. More likely, Kansas will harm its future economy by damaging its schools and other public services.

Moore's response: I don't want to get into a war over the academic studies. There are probably three to four dozen studies cited in *An Inquiry into the Nature and Causes of the Wealth of States* — all published in leading science journals — that find a persistent and negative effect of taxes on migration into a state and on jobs. But this debate reminds me of the old Groucho Marx line: "Who you going to believe, me or your own two eyes?" All of the moving van data, the Census data, etc. show a clear migration of people from high- to low-tax states going back to the 1970s.

There is a whole chapter, chapter 8, of *Wealth of States*. (Anyone who is interested in this topic really should read this. It is the new bible of state growth and taxes.) Anyway, for the umpteenth time, the reason that per capita income growth is only slightly higher in the no-income-tax states is because their population is growing rapidly, so the numerator and denominator is growing in these states. Anytime a family with four kids moves into a state, it is a pretty good bet that the state's per capita income falls immediately. Rhode Island, which is losing people left and right, has a high per capita income, but no one would mistake that as a happening place.

Moore question 2: If tax cuts are so harmful to a state economy, then why is there a substantial and consistent migration from high-tax states to low-tax states, including out of California over the last decade?

Leachman: Differences in state tax levels have an insignificant impact on interstate migration, according to the vast majority of serious academic research. Correlation is not causation. For decades, Americans have been moving away from the Northeast, the industrial Midwest, and the Great Plains to most of the southern and southwestern states, regardless of overall tax levels or the presence of an income tax in any of these states. For instance, almost as many people moved to income-tax-levying Arizona as no-income-tax Texas between 1993 and 2011, even though Texas is a much larger state with many more jobs for a potential transplant to fill. Net in-migration to income-tax-levying North Carolina more than doubled that of neighboring no-income-tax Tennessee during this period. As for California, out-migration has been driven by middle-class families leaving for lower housing costs, not high-income people fleeing California's income taxes.

To be sure, some individuals relocate because they think their taxes are too high or take state and local tax levels into account in deciding where to live. Nonetheless, there is overwhelming evidence that those cases are sufficiently rare that they should not drive state tax policy formulation.

Moore's response: Yes, of course, there are a dozen reasons why some states grow faster than others, and we found with frustration that it is indeed hard to tease out the tax variable because it is highly correlated with other pro-growth policies, such as right-to-work laws, light regulation, low workers' compensation costs, and so on. In other words, most no-income-tax states are also right-to-work states, so it's statistically not easy to figure out which is the dominant

factor of the two, but the two together are explosively pro-growth. The argument that people are going where the jobs are, not where the taxes are low, is spurious because the jobs are created in the low-tax states.

Moore question 3: Why do you believe that spending more money on government services leads to better output? In most industries lower costs are a goal, right?

Leachman: Spending more on government services of course does not always lead to better output. States sometimes can reduce their spending in specific areas and improve outcomes. For instance, many states right now could reform their criminal sentencing policies, reducing spending on prisons, without harming public safety.

But states are not businesses, and their goal is not profits for the owners or dividends to shareholders. States generally cannot absorb large revenue reductions without weakening education, transportation, public health, and other services that build a foundation for economic growth and an attractive quality of life for a broad swath of residents.

Since the recession hit, Kansas has cut general aid to schools per student by 15 percent after adjusting for inflation. Schools have laid off hundreds of teachers, raised class sizes, cut funding for teacher professional development, cut extracurricular programming, and imposed other reductions. Further cuts in school funding — a very likely result of the additional tax cuts on the way — will force schools to extend this damage. As a result, Kansas's schools likely will lose ground as other states recover from the recession, reinvest in their schools, and make productive new investments in early childhood education and other areas.

Moore's response: Again, our book shows that states that spend less on public services generally have better results — better roads, schools, etc. — than states that spend more. So states can cut taxes and improve public services. It is true that governments aren't run as businesses — this is why public services are so inefficient and costly. Name any other industry in which we judge success by how much we spend. Every other industry judges success by becoming more, not less, efficient.

Moore question 4: Isn't 18 months a little soon to judge a tax change a success or failure?

Leachman: It's not too early to judge how well Kansas's economy is performing so far under the tax cuts, in part because of the claims made by proponents when the tax cuts were enacted. When he signed Kansas's tax cuts into law, Brownback said they would act like "a shot of adrenaline" for the state's economy. You yourself wrote in 2012 that cutting taxes can have a "near immediate" effect on state economies. Yet after a year and a half, Kansas's private sector job growth is relatively weak, and other standard economic indicators show no sign of an economic boost from the tax cuts.

Again, there's no reason to think that the tax cuts will boost Kansas's economy in the future. Even the state's own legislative analysts project Kansas economic growth will lag the U.S. significantly — this year and next. Other states that

in the 1990s and 2000s tried using deep income tax cuts to grow their economies got results that are not encouraging for Kansas. And the overwhelming view of academic experts is that tax rates just don't play a big role in explaining relative state growth rates.

Moore's response: The Kansas situation is fine. The state is outperforming its neighbors — especially Illinois — and only Oklahoma has had more growth because of the oil revolution. The states that cut taxes, like Texas, Oklahoma, Arizona, Florida, and Georgia, are doing exceedingly well and growing faster than the national average. Illinois is a basket case and had a huge tax increase that was supposed to solve its problems. California's revenues fell more than any other state's so far this year. So much for the California comeback.

Moore question 5: Why have the states that have adopted income taxes and then raised them performed so much slower than the rest of the states?

Leachman: See my answers to questions 1 and 2.

The recent experiences of Kansas and California also are worth noting. In November 2012, just a few weeks before Kansas's massive income tax cuts took effect at the beginning of 2013, California voters passed a major income tax increase to boost funding for schools and community colleges. What's happened since then? California has added jobs at a much quicker pace than Kansas.

Specifically, since December 2012 California has seen private sector job growth of 4.3 percent. Kansas's corresponding job growth has been just 2.3 percent.

Of course, broader economic factors are at play here. No one knows for sure how these two state economies will perform in the future. The key point for this debate is that there's no reason to think that Kansas's tax slashing is improving that state's economic outlook and plenty of reasons to be concerned about the damage it is causing.

Moore's response: I stand by my earlier point that was ignored: Every one of the 11 states that adopted an income tax since 1960 has lost income and jobs relative to the rest of the nation. Maybe these states should abolish their income taxes.

Leachman's Questions

Leachman question 1: In 2012 you and Arthur Laffer wrote, "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." Why — 18 months after the income tax rate cuts were implemented — isn't Kansas's economy performing better?

Moore: It's a little early to tell about Kansas. A 1.5 percentage point tax cut isn't going to turn this midwestern state into Beverly Hills or Boca Raton. If Kansas can con-

tinue to get the rate down to close to zero, we would expect to see some strong growth effects. Our advice to Brownback is full speed on the tax cuts.

Leachman's response: The total income tax cut in Kansas was very large, equaling at least 9 percent of revenues this fiscal year. It's hard to expect a state to do more than that. And again, Moore said cutting income taxes is the most effective way to immediately boost state economies. Hearing now that they've got to do substantially more tax cutting before they'll see strong growth effects has got to be disappointing to people who believed in the Kansas experiment.

Leachman question 2: Seven economists (or groups of economists) have published studies on state taxes and migration in peer-reviewed economics journals since 2000. Six of the seven studies concluded that taxes do not drive interstate moves. Eight additional studies on the impact of state taxes on migration that were not published in academic journals have been released in the same period; six of the eight found either that state income taxes had no effect on migration or that the effect was small or inconsistent. Why don't more serious economic studies support your views on the impact of taxes on migration?

Moore: Well, let's see: I just published a 300-page book, *An Inquiry into the Nature and Causes of the Wealth of States*, proving that low income taxes, right-to-work laws, light regulation, less debt, and several other policy factors have a very observable and statistically significant effect on state economic growth. We found this to be true regarding population growth, jobs, and income growth. It's quickly becoming the bible on the subject.

Incidentally, we cite dozens of studies over the last 50 years that confirm our findings. The rule of thumb is that low-tax states and right-to-work states can expect about double the rate of job growth over time versus their high-tax neighbors.

By the way, we don't need any more studies arguing about what Americans can see every day with their own two eyes. The moving van data of inbound and outbound shipments confirm the heavy migration tilt toward low-tax states — which tend to be in the South.

Leachman's response: It's true that there's a population shift from the Northeast toward the Sunbelt. What the academic literature (by which I mean books and articles by people other than Moore and Laffer) tries to ascertain is whether taxes are driving that population shift. They tend to conclude: No.

As for what people see "with their own two eyes," they see communities prospering that invest in great schools, infrastructure, and quality of life.

Leachman question 3: A typical family with a \$75,000 income selling its home in Los Angeles in 2010 and buying one in Las Vegas or Houston would have saved more than two-and-a-half times as much in mortgage payments as they would have saved in state and local taxes. The same family moving from New York City to Miami would have

saved more than three times as much in housing costs as in state and local taxes. Are housing price variations more important than tax differences in determining migration patterns?

Moore: Yes, housing prices matter for sure. Because taxes and costs generally are lower in low-tax states, you can buy a lot more with your money there. And don't forget that jobs migrate to low-tax states. Sometimes those on the left say that people are moving to where the jobs are, not where the taxes are low. But these two variables are interrelated.

Leachman's response: The point is that housing cost differentials are a more important factor in determining migration patterns than tax differentials. And of course lower housing prices are not a result of lower taxes. Homes are less expensive in Las Vegas than Los Angeles because there's less demand for homes in Las Vegas and more land on which to build new homes and thereby increase the supply.

Leachman question 4: A major provision of the Kansas tax cut package was the elimination of taxes on passthrough income. This provision has been panned as economically inefficient by the Tax Foundation and others. It also goes to many businesses with no employees but the owners and no intention of hiring — including investment vehicles such as hedge funds. And it is expensive, reducing funding for Kansas's schools and other services. Given these problems, do you think this provision is good tax policy?

Moore: This is a fair point about tax dodges for investors. Kansas may need to tighten the requirements so the elimination of the income tax is directed to businesses that actually employ workers in the state — since that is the intention.

Leachman's response: If Moore is right that the “intention” of the policy was to give a tax break only to businesses that employ people, why wasn't it written that way — and, two years after enactment, why hasn't it been revised? The reality is that this provision (like the rest of the package) was hastily slapped together based on a simplistic theory that getting rid of any income tax in any form would spark economic growth. It should be repealed in its entirety, not just tightened — and other states like Missouri and Ohio that have recently adopted similar provisions should do the same.

Leachman question 5: A survey earlier this year of the founders of *Inc. 500's* fastest-growing companies found that only 5 percent of respondents said taxes were a significant factor in where they chose to start their firms. The survey authors conclude that the most important factors for attracting and retaining highly successful entrepreneurs are “a great place to live plus a talented pool of potential employees, and excellent access to customers and suppliers.” State and local taxes, they conclude, have “little influence.” If this is wrong, why don't more fast-growing companies cite taxes as a significant factor in their location decisions?

Moore: This is why survey research — which I use sometimes myself — can be tricky. First, we know that

people behave in ways that are different than the way they answer surveys. Second, many businesses are very reluctant to say they are leaving A for B because of the taxes. Look at what happened to Phil Mickelson when he announced that taxes were too high and he was moving to Florida. The wrath of the left came down upon him, and there was even talk that he would lose sponsors. Much better to do what Tiger Woods did: leave California for Florida, but keep your mouth shut. Walgreens probably wishes it had done that. Toyota moved from high-tax California to low-tax Texas. The company was smart. It said it wasn't leaving for tax reasons and the news media in Los Angeles and throughout the state even believed them. Much better to look at what companies do, not what they say they are going to do.

Leachman's response: When confronted with data, Moore resorts to anecdote. The reality is that the vast majority of corporations and high-income individuals do not leave states with income taxes. That's why income-taxing states like California and Maryland are still chock-a-block with millionaires and why many of the country's most successful companies, from Google to Target to Goldman Sachs, are still headquartered in states with robust income taxes.

Moore's Final Statement

Interstate migration is changing the center of gravity of power from blue northeastern states to red southern states. There are many reasons for this migration, but taxes are clearly one of them. About 3,000 people a day move from high- to low-tax states.

To summarize the impact of tax-induced migration, it is instructive to compare the nine no-income-tax states (Alaska, Florida, Nevada, South Dakota, Texas, Washington, Wyoming, New Hampshire, and Tennessee²) with the nine states with the highest income tax (Kentucky, Minnesota,³ Maryland, Vermont, New Jersey, Oregon, Hawaii, New York, and California⁴).

Here are the results for the last decade, 2003 to 2013:

- The no-income-tax states on average gained 3.7 percent population from domestic in-migration from 2003 to 2013, while the highest income tax states lost an average of 2 percent population during that time

²New Hampshire and Tennessee tax interest and dividend income — so-called unearned income — but not ordinary wage income.

³Swapped Minnesota for Ohio to reflect the more recent data provided in the seventh edition of the American Legislative Exchange Council's *Rich States, Poor States*.

⁴Top marginal personal income tax rate on personal income imposed as of January 1, 2014, using the tax rate of each state's largest city as a proxy for the local tax. The deductibility of federal taxes from state tax liability is included where applicable.

frame.⁵ Overall, population growth on an equally weighted basis from 2003 to 2013 was twice as high in the low-income-tax states.

- The jobs growth rate in the no-income-tax states was more than two times higher than that of the high-income-tax states, on an equally weighted basis.⁶
- Personal income has grown about 15 percent faster in the no-income-tax states than the highest income tax states over the past decade.
- Between tax years 1992 and 2009 (the most recent year data for *Wealth of States* were available), interstate migration has increased the adjusted gross income of the no-income-tax states by 14.2 percent, while the high-income-tax states have lost 8.8 percent.⁷

Whatever decade you want to examine since the 1960s, the results are pretty much the same.

Lower tax rates and lower tax burdens are not associated with worse public services. Schools, roads, prison, police, and fire service are often better, not worse, than in high-tax states. The classic example is the comparison between California and Texas. Texas spends about 30 percent less for public services, but it outperforms California in nearly every public service category in terms of efficiency.

Liberal critics deny that these economic forces are in play. But it is noteworthy that New York, whose politicians in Albany have for decades said that taxes don't matter, is now

⁵*Supra* note 3.

⁶See ALEC, *Rich States, Poor States*, 7th Edition, table 6, at 39.

The equally weighted jobs growth rate was more than four times higher. But this does not mean the raw number created was four times higher; further, this is not an aggregate number for either grouping. The book merely averaged the percentages for each state to derive an equally weighted average.

⁷Moore et al., *An Inquiry into the Nature and Causes of the Wealth of States: How Taxes, Energy, and Worker Freedom Change Everything*, table 5.2, at 107 (2014). Data sources: Laffer Associates, IRS.

running ads around the country about big tax breaks to firms if they move to the Empire State.

States ignore the clear relationship between taxes and growth at their own peril.

Leachman's Final Statement

Kansas followed Moore's simplistic advice: Slash your income taxes and your economy will surge. But that advice is wrong. And now, Kansas's finances are in shambles, its economy is ho-hum, and its future looks worse — not better. Other states that follow this path can expect a similar result.

This debate is not really just about Kansas. Other states have passed — more recently than Kansas — irresponsibly large income tax cuts under the guise of economic revitalization.

The tax cuts enacted by these other states — Missouri, North Carolina, Indiana, and Ohio, for example — are not much different from Kansas's. While none were as big as the Kansas cuts, they generally included many of the same ingredients. At their core is big cuts in income tax rates for the highest-income households to be paid for with cuts in funding for schools and other public services key to future economic growth, and often tax increases for low-income families. The tax cut plans in Missouri and Ohio even included versions of the most foolhardy provision in Kansas's approach: the highly wasteful income tax exemption for passthrough entities.

Economic growth will not save these states from further diminishing their education systems or other important public services — services already damaged by the Great Recession and its aftermath. And as in Kansas, there's no reason to think the tax cuts will cause these states to see their economies boom in the years ahead.

Given Kansas's obvious and growing fiscal problems, it's no surprise that some proponents of the tax-slashing approach want to pretend that Kansas is different. It isn't. ✪