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How Kansas and California Debunked the GOP's Tax Cuts Argument

By Carl Gibson
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Imagine making a bet with a hardline trickle-down believer like Paul Ryan on a state's projected economic growth. You would bet that one state that raised taxes on its richest residents would have unprecedented new job creation and a vastly improved economy, while Paul Ryan would bet that a state which cut taxes for the wealthy would have the better economy. If this bet actually took place, you would walk away the winner. And the trickle-down believers of America would be speechless.

Kansas' Sinking Economy

In 2010, newly-minted Kansas governor Sam Brownback, elected on promises of restoring the state's down economy, made that bet, and proceeded to ram through massive tax cuts for the wealthy, at a cost of $800 million, or 8 percent of the revenue used to fund schools, a hit most commonly seen in a fairly severe recession. The tax cuts reduced the state's income tax rate from 6.45 percent to 4.9 percent, scheduled to hit 3.9 percent by 2018. The end goal of Brownback's plan was to reduce the state's income tax rate to zero, earning him an A from the Cato Institute, a Koch-funded, libertarian think tank.

Governor Brownback and the GOP-led legislature also reduced sales taxes from 6.3 percent to 6.15 percent, where it would stay through 2018. This means sales taxes would be higher than income taxes, disproportionately hurting Kansas' poor, who are already struggling to buy food and medicine and pay the rent. Brownback paid for the cuts by eliminating the home mortgage interest deduction, which is a tax break that middle-class homeowners depend upon.

Several years after those tax cuts were passed, Kansas' economy is in the shitter. Kansas' job growth has failed to keep up the pace with the national average. Moody's cut the state's bond rating for the first time in over a decade, citing a lack of confidence in Kansas' fiscal leadership. Revenue projections are down $700 million from the year before, meaning public services like schools have to be cut as a result. In just fiscal year 2014 alone, the state fell short of estimated revenue projections by $338 million. Kansas' non-partisan Legislative Research Department estimates Brownback's tax cuts will cost the state $5 billion in lost revenue by 2019. To put that in perspective, Kansas currently has an $8 billion state budget.

Because public services are being cut, fewer people in the public sector are collecting a paycheck. And because more unemployed workers means less money spent in Kansas' economy, things are expected to worsen under the current tax structure. As schools suffer from a lack of funds, Kansas' public school students will fall behind and will be deprived of skills needed to be successful professionals in adulthood. Brownback's future as a two-term governor is looking grim because of his failure to deliver on economic promises.

California's Soaring Economy

California did the exact opposite of Kansas. In 2012, when California was in a dire budget crisis, voters passed a critical ballot initiative undoing the state's requirement of a two-thirds supermajority vote in the legislature to raise taxes. Through the initiative, California voters passed tax increases for everyone, including the rich, marginally increasing the sales tax while creating new income tax brackets of 10.3 percent for those who earned between $250,000 and $300,000; 11.3 percent for taxpayers who made anywhere between $300,000 and $500,000; 12.3 percent for incomes of $500,000 to $1,000,000; and 13.3 percent for all incomes above $1,000,000. The richest Californians would barely notice it, given the immense wealth in California's major economic hubs like Silicon Valley, Hollywood, and the wine country.

After monitoring the results, the New Jersey Policy Perspective, a non-partisan think tank, found that California's tax increases are paying off big time. The state's coffers will gain approximately $6.8 billion in new revenue every year, all of which will be invested in public education. California saw 2.9 percent job growth in 2013, making it the third fastest-growing economy in the US. California will have an operational surplus of $9 billion by 2018, meaning even more public sector jobs created and a better economy for everyone. And because education is now a funding priority, California's schoolchildren are set up to soar above and beyond national education averages. Well-educated kids means more people in the future able to take on high-skilled, good-paying jobs.

Putting these two states side by side, it doesn't take an economics professor to see how much unnecessary tax cuts hurt a local economy, and how much marginal tax increases help an economy. At the federal level, American families have lost an average of roughly $48,000 in income per person, or $6.6 TRILLION, since the Bush tax cuts of 2001 (adjusted for inflation). As journalist David Cay Johnston pointed out, that's enough money to pay off every family's credit card debt, student loan debt, and car notes, while still having enough left in the bank.

Families freed from such financial worries would have plenty more disposable income to spend in their local economies, boosting small business in the process and creating enough local demand for more new jobs. The extra tax revenue we would have gained had the Bush tax cuts never gone into effect would be enough to invest in improving education, health care, transportation, agriculture, and myriad other programs. In fact, raising the current top tax rates on the richest 1 percent of Americans to 67 percent (still 3 percent less than the top rate under Nixon), along with creating new tax brackets for millionaires and billionaires, would generate $4 trillion over ten years. That would be enough for a new WPA-style program aimed at rebuilding our vastly sub-par infrastructure while creating millions of new jobs.

The tax cuts experiment has had plenty of time to show results, but the only people whose economic situations have improved since the Bush tax cuts are the wealthiest 1 percent of society. The Paul Ryans of America have lost the bet fair and square. It's time we learn a lesson from Kansas and California and apply some common sense to our tax structure.