Kansas was supposed to be the GOP's tax-cut paradise. Now it can barely pay its bills.

By: Andrew Prokop
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In 2012, Kansas governor Sam Brownback signed a massive tax cut into law, arguing that it would boost the state's economy. Eventually, he hoped to eliminate individual income taxes entirely. "Our place, Kansas, will show the path, the difficult path, for America to go in these troubled times," he said.

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National conservative activists raved. Patrick Gleason of Americans for Tax Reform said Kansas was "the story of the next decade." The Cato Institute praised Brownback's "impressive" tax cuts and gave him an "A" on fiscal policy. And the Weekly Standard's Bill Kristol said that, if reelected, Brownback would be "a formidable presidential possibility."

Yet though Brownback is running for reelection this fall in a deep red state, he's trailed his Democratic challenger in 3 of the 4 most recent polls — and his marquee tax cut appears to be the main reason. Kansas is now hundreds of millions of dollars short in revenue collection, its job growth has lagged the rest of the nation, and Moody's has cut the state's bond rating. "Governor Brownback came in here with an agenda to reduce the size of government, reduce taxes, and create a great economic boom," says University of Kansas professor Burdett Loomis. "Now there's been a dramatic decline in revenues, no great increase in economic activity, and we've got red ink until the cows come home."

In his Senate career and his 2008 presidential run, Brownback was best known for his social conservatism. "Not limited government, but compassionate government is Brownback's chief preoccupation," the Weekly Standard wrote in 2006. But by the time Brownback was sworn in as governor in early 2011, the national GOP was preoccupied with tax and fiscal issues. And in January 2012, Brownback announced that a major tax cut would be the centerpiece of his agenda.

"It bankrupts the state within two years"

Brownback's tax cut proposal came as Kansas's revenues were on an upswing. Spending cuts and a one-cent sales tax passed by Brownback's Democratic predecessor had combined with economic growth to give Kansas a surplus. Now, Brownback argued, his tax cuts would lead to even more success. "I firmly believe these reforms will set the stage for strong economic growth in Kansas," he said.

The governor proposed to cut income taxes on the state's highest earners from 6.45 percent to 4.9 percent, to simplify tax brackets, and to eliminate state income taxes on most small business income entirely. In a nod to fiscal responsibility, though, he proposed to end several tax deductions and exemptions, including the well-liked home mortgage interest deduction. This would help pay for the cuts.

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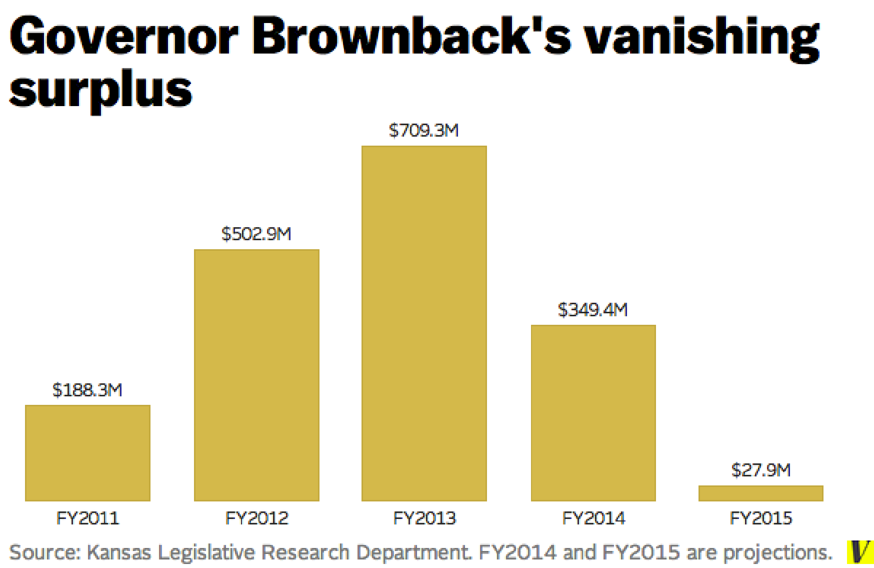
Yet as the bill went through the state Senate, these deductions proved too popular, and legislators voted to keep them all. The bill's estimated price tag rose from about $105 million to $800 million, but Brownback kept supporting it anyway. "I'm gonna sign this bill, I'm excited about the prospects for it, and I'm very thankful for how God has blessed our state," he said.

Democrats, and some Republicans, weren't buying it. "It bankrupts the state within two years," said Rochelle Chronister, a former state GOP chair who helped organize moderate Republicans against Brownback's agenda. And the House Democratic leader, Paul Davis, laid down a marker. "There is no feasible way that private-sector growth can accommodate the price tag of this tax cut," he said. "Our $600 million surplus will become a $2.5 billion deficit within just five years." In return, Brownback's administration claimed the bill would create 23,000 jobs by 2020, and would lead 35,000 more people to move to Kansas.

After the cuts became law, it was undisputed that Kansas's revenue collections would fall. But some supply-side analysts, like economist Arthur Laffer, argued that increased economic growth would deliver more revenue that would help cushion this impact.

Yet it's now clear that the revenue shortfalls are much worse than expected. "State general fund revenue is down over $700 million from last year," Duane Goossen, a former state budget director, told me. "That's a bigger drop than the state had in the whole three years of the recession," he said — and it's a huge chunk of the state's $6 billion budget. Goossen added that the Kansas's surplus, which had been replenished since the recession, "is now being spent at an alarming, amazing rate." You can see that in this chart (the surplus is cumulative, not yearly):



Kansas has to balance its budget every year, so when that surplus runs out, further spending cuts will be necessary. The declining revenues have necessitated extensive cuts in state education funding, according to the Center on Budget and Policy Priorities. Moody's cut of the state's bond rating this May was another embarrassment. And the economic benefits Brownback promised haven't materialized either. Chris Ingraham wrote at Wonkblog that Kansas's job growth has lagged behind the rest of the country, "especially in the years following the first round of Brownback tax cuts."

Brownback, like New Jersey Governor Chris Christie, has blamed President Obama for his state's growing red ink. "This is an undeniable result of President Obama's failed economic policies of increasing taxes and overregulation," Brownback's revenue secretary Nick Jordan said. Brownback's administration argues that because of uncertainty over the "fiscal cliff" in late 2012, some earners paid capital gains tax early, which depleted 2013 receipts.

These numbers don't add up. The fiscal cliff was a national event, but revenues fell far more in Kansas than in other states, according to a study by the Nelson A. Rockefeller Institute of Government. Furthermore, Goossen says, "Capital gains are not that big a piece of Kansas income. They don't even come close to explaining a $700 million income tax collection drop between fiscal year 2013 and fiscal year 2014."

Brownback's approval rating has plummeted — in a recent poll by PPP, his 33 percent was actually lower than Barack Obama's 34 percent approval. This is good news for state House Democratic leader Paul Davis, who announced his run for governor last September. "I'm profoundly troubled by the direction our state has been heading over the past three years," he said in his first campaign email. "The wealthiest and well connected have gotten all the breaks, and the Kansas economy feels broken." In the most recent poll of the race, Davis leads Brownback by 6 points.

Though no fundraising numbers for 2014 have yet been disclosed, the 41-year old Davis amassed about $1 million in just a few months last year, nearly matching the governor's total.

(On December 31, Brownback had only raised $1.1 million — but then his running mate dropped in a $500,000 personal loan to avoid embarrassment.) "Brownback has never been a great fundraiser," said Loomis. "I think he's counting on Koch money, Americans for Prosperity money, to come in — and it will come in." Labor and liberal outside groups are expected to spend for Davis as well.

Yet while Davis opposed Brownback's tax cuts, and has been harshly critical of their effects, he hasn't called for them to be repealed. Instead, he's said that a new round of cuts should be postponed — and called for a commission to explore reducing local property taxes. So it seems that, regardless of who wins this fall, Kansas will be experiencing the effects of Brownback's experiment for quite some time.