milwaukee journal sentinel
PART OF THE USA TODAY NETWORK

Tax cuts haven't delivered economic growth or jobs for the Midwest. More focus on research and development is the key.

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October 27, 2022

There's an old argument -- more pervasive on the brink of midterm elections -- that tax cuts are the ticket to good jobs, more companies and rising economic prosperity.

Concerns about inflation make this argument all the more enticing.

But here's the rub: For the Midwest/Great Lakes region in particular, tax cuts alone haven't done it -- and won't going forward.

You can argue, of course, that cutting taxes is beneficial. Current data shows people are moving from higher-tax states like California and New York to lower-tax states like Texas and Florida.

But the truth about regional economic growth and prosperity is in the details behind national statistics.

Consider this: Two of the five top governors in Cato Institute's biennial Fiscal Report Card on America's Governors are in the Midwest: Gov. Kim Reynolds (R-Iowa); and Gov. Pete Ricketts (R-Nebraska). Both earned A's in 2022 and 2020 for their ability to cut taxes and spending.

No impact in Nebraska, Iowa, and a failure in Kansas

So you'd think with tax-cutting superstars at the helm, people would be flocking to Iowa and Nebraska. Nope.

Despite the tax cutting, both states had net household outflows - particularly among Nebraska households with income of more than $200,000, according to Cato Institute's analysis of 2020 Internal Revenue Service.

For proof that tax cuts alone are ineffective, look at Gov. Sam Brownback's great Kansas experiment. Brownback -- who got As from Cato Institute during this period -- led the 2012/2013 crusade that cut the state's top income tax rate by almost 30% and the tax rate on certain business profits to zero.

It didn't work. Kansas failed to produce Brownback's predicted explosion in economic output, job creation and new business formation. In fact, Kansas underperformed most neighboring states in those categories, according to the Center on Budget and Policy Priorities.

Kansas’ legislature threw out Brownback’s policies in 2017, putting tax rates on income and business profits back where they’d been.

There’s obviously more to it than tax cuts.

Weather is used as a simplistic excuse for brain drain

The population of the South and West grew about seven times faster than that of the Northeast and Midwest from 2017 to 2019, according to The Policy Circle. Why?

Some use weather to explain our region’s dramatic out-migration. Conveniently, this relieves political leaders of responsibility for the brain drain. They can lower taxes, but they can’t raise winter temperatures. Spare me the simplistic excuses.

Thoughtful leaders understand the Midwest/Great Lakes region needs higher Gross Domestic Product (GDP), steady population growth and greater personal wealth -- pretty much the opposite of what we’ve experienced in the last 50 years. And the way to achieve that is to balance tax policy with smart fiscal spending that encourages growth of high-tech businesses.

We used to have a better handle on technology-driven growth. For most of the 20th century our economy was built on fossil fuels, electricity and metal fabrication, and produced cars, trucks, airplanes, agricultural, construction and heating and air conditioning equipment, and a plethora of household goods.

Unfortunately, decades of financially trained executives wringing costs out of basic industries delivered productivity gains at the expense of more growth. And sadly, many of our region’s so-called business leaders believe this ‘shrinking to greatness’ created economic wealth.

What it created was fool’s gold.

You don’t build transformational companies -- the engines of economic growth -- by simply cutting costs. Just look at Tesla or Amazon or Apple. Two and a half years of R&D positioned Steve Jobs to announce in January 2007 that the first iPhone was five years ahead of any other phone on the market.

Big R&D budgets support creative people who invent new products and services from new science. Hordes of them have left precisely because we have very few high-paying tech jobs. Too often corporate leaders offer technical talent less pay, hoping family ties and friendships will compensate. More fool’s gold.

Indiana was the only Midwestern state that had net population inflows across all households, according to Cato Institute’s 2022 Report Card analysis. Hmmm.

Former Gov. Mike Pence got A’s for his fiscal policies. Current Gov. Eric Holcomb has done even better. He has a B average from Cato Institute over the last six years. And a robust plan for economic growth.

Holcomb got a D in 2018, a year after helping empower the Next Level Indiana Fund to make higher-risk venture capital investments capped at $250 million. Holcomb in 2019 guided Indiana to become the third state to adopt Code.org’s nine policies for making computer science a key element of K-12 education policy.

Tax, spending cuts don't deliver on promises

Kinda makes politicians pushing only tax and spending cuts look simplistic, doesn’t it. Like broken clocks, right twice a day. Holcomb seems willing to make trade-offs for the benefit of Indiana’s economic future.

We need more politicians who will do the hard work of keeping budgets in check and developing real, comprehensive strategies for growth.

Holcomb had the advantage of seeing close-up the magic that can happen when startups strike it big. Salesforce Inc., the giant customer relationship management software maker, acquired Indianapolis-based ExactTarget in 2013 for about $2.5 billion. Salesforce put an office in Indianapolis; it’s now among Indiana’s largest tech employers with more than 2,000 employees there.

But the deal also created many new venture investors and spotlighted ExactTarget co-founder Scott Dorsey. Dorsey started Indianapolis-based High Alpha to create new startups and, just as importantly, stuck around to help elected officials understand the necessary ingredients for a high-growth economy.

When you enter the polling booth, the fool’s gold candidates may be the only choice you’ve got. Go ahead, pull the trigger for tax cuts.

But know that as you do, you’re getting cheated out of more than half of the equation for a strong economy and a better life.