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The Best and Worst Governors on Growth

Sam Brownback, Rick Scott, Paul LePage and Tom Corbett all get an 'A' as tax cutters.

By CHRIS EDWARDS – October 9th 2012

Federal lawmakers have created an economic mess with their chronic overspending and inability to deliver stable, pro-growth tax policies. Perhaps the elections will break the Washington gridlock and knock loose some solutions. Until then, state capitols are the only place where there is real fiscal progress.

Two governors—Scott Walker of Wisconsin and Chris Christie of New Jersey—have gained national attention for their changes to government pension and union rules. But other state leaders are making breakthroughs on taxes, and they are the focus of Cato's new "Fiscal Policy Report Card on America's Governors."

Four governors received an "A" grade: Sam Brownback of Kansas, Rick Scott of Florida, Paul LePage of Maine and Tom Corbett of Pennsylvania. Messrs. Scott and Corbett have been the most tightfisted on spending, but all four "A" governors are outstanding tax reformers.

• Gov. Sam Brownback cut the top individual tax rate in Kansas to 4.9% from 6.45%, increased the standard deduction and cut taxes on small business income. This tax cut was the biggest tax cut of any state in recent years relative to the size of its economy.

• Gov. Rick Scott ended Florida's corporate income tax for thousands of small businesses. He is also moving ahead with cuts to property taxes on business equipment, which are a big hindrance to economic growth.

• Gov. Paul LePage cut Maine's top individual tax rate to 7.95% from 8.5% and simplified income tax brackets. He also signed a bill to cut the top rate to 4% over time if there are sufficient budget surpluses. Mr. LePage's ultimate goal is to phase out the individual income tax and cut the corporate tax rate in half, to 4%.

• Gov. Tom Corbett slashed Pennsylvania's Capital Stock and Franchise Tax and hopes to fully repeal it by 2014. That sounds like an obscure reform, but this tax imposed an $800 million annual burden on businesses. Mr. Corbett is right that it "is a job-killer. . . . We don't need it. We don't benefit from it, and we must get rid of it."

That type of can-do attitude toward business tax cuts is exemplified by Michigan's Gov. Rick Snyder, who received a "B" grade overall. Mr. Snyder scrapped the hated Michigan Business Tax and replaced it with a less costly corporate income tax to save businesses $1.6 billion a year.

His next goal is to reduce the state's $1 billion burden of personal-property taxes on businesses. These levies—which are imposed on machinery, equipment and other movable assets—are some of the most anti-growth taxes in America. Everybody benefits when businesses buy machines and expand production, but personal property taxes directly penalize that job-creating activity.

State business taxation is an overlooked area in need of reform. The Council on State Taxation found that state and local levies on businesses totaled $644 billion in 2011, or more than double the annual cost of the federal corporate income tax. True, the federal corporate tax rate is too high relative to other countries' and is hurting American competitiveness. But business property taxes, sales taxes imposed on business purchases, and myriad other anti-investment levies imposed by state and local governments also impede economic growth.

Unfortunately, there are some states going in the wrong direction on fiscal policy. The Cato report card gave "F" grades to Pat Quinn of Illinois, Dan Malloy of Connecticut, Mark Dayton of Minnesota, Neil Abercrombie of Hawaii and Chris Gregoire of Washington. These governors are big spenders and they all pushed major tax hikes, which have undercut the economic recovery.

Some of these governors are schizophrenic on taxes: They jack up overall business tax rates, then give breaks to favored businesses. Gov. Quinn, for example, pushed up corporate rates within a massive, overall $7 billion tax increase in 2011. He has also handed out special tax breaks to filmmakers and to companies that threaten to leave the state because of high taxes, such as Sears and Motorola.

Happily, other governors—such as Nikki Haley of South Carolina, Terry Branstad of Iowa, Mary Fallin of Oklahoma and John Kasich of Ohio—are pursuing business or personal income tax-rate cuts in order to boost the economy. Now all we need are more federal politicians who could earn passing grades on pro-growth fiscal policy.

Mr. Edwards is director of tax policy studies at the Cato Institute and editor of www.DownsizingGovernment.org. The report will be released Tuesday at Cato.org.