

POLICY BRIEF — Feb. 1, 2022

## Iowa and Kansas: Will it be Déjà vu all over again?

Dramatic failure of tax cuts to boost Kansas shadows Iowa tax proposals

By **Peter Fisher, Research Director**

A bill is advancing in the Iowa Senate to cut income taxes drastically and move towards complete elimination of the tax. If this idea sounds familiar, it is because the Kansas Legislature several years ago got sold on the same idea: that massive income tax cuts were a prescription for prosperity and population growth.

The Kansas Governor and his friends at ALEC (the American Legislative Exchange Council) Stephen Moore and Arthur Laffer lauded this experiment, claiming it would provide an “immediate and lasting boost” to the economy. The Governor claimed they would “create tens of thousands of jobs and will make our state the best place in America to start and grow a small business.”

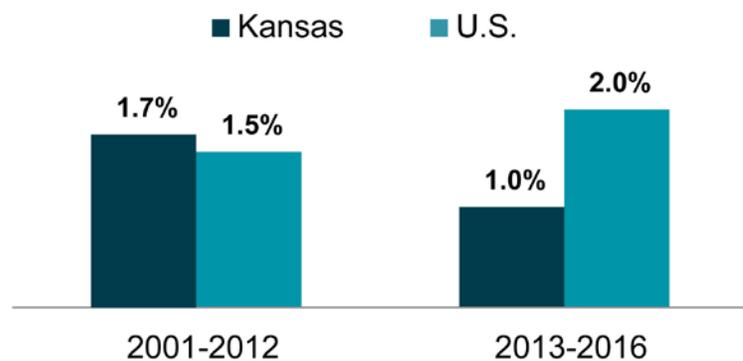
Kansas took the leap and enacted major cuts to income taxes in 2012 and 2013, on their way, they claimed, to complete elimination of the tax. Four years later, this experiment had proven to be a dramatic failure.

[Abundant evidence](#) shows the tax cuts failed to boost the Kansas economy, and instead inflicted harm. In the years prior to the cuts, Kansas had actually grown faster than the nation.<sup>1</sup> But for the three years after the tax cuts took effect Kansas lagged most other states in the region, and in the country as a whole, in terms of job growth, GDP growth, and new business formation.

The Kansas experiment was a fiscal as well as economic disaster. In order to bring the budget somewhat back in balance, Kansas borrowed from the future, using up reserves, postponing infrastructure projects, and missing contributions to the pension fund. Schools closed weeks early when state funding ran out.

The bill’s proponents argued that the problem in Kansas was that they failed to cut services sufficiently to balance their budget. Of course they did! Their constituents were up in arms over the

**Kansas GDP growth lags behind U.S. after tax cuts**  
Average annual percent change in real GDP



Source: Bureau of Economic Analysis, Real GDP by State (chained 2009 dollars), 2000-2016

cuts they did enact; they would not have stood for anything more drastic. Had they cut spending further, that would have put a bigger dent in the economy, as recipients of government contracts would have been forced to retrench and workers laid off would have spent less in the local economy.

The fiscal fiasco created problems for business as well. Some assert that the tax cuts and its consequences have been partly responsible for the worker shortage that followed. From 2013 to 2015, Kansas experienced a net outmigration of about 9,000 people; so much for the notion that people would flock to Kansas after the tax cuts. Neighboring Missouri, with higher taxes, *grew* by 7,000.

In 2017, a supermajority of the Kansas Legislature overrode Governor Brownback's veto and ended the experiment, recognizing it as a failure and responding to the demands of Kansas citizens to restore funding to education, highways, and other state services they rely on. Income tax rates were restored nearly to their level prior to 2012. In 2018, Kansas elected a Democratic governor.

Some Iowa legislators appear to believe that somehow Iowa can do the same thing as Kansas and expect a different result. Are they prepared to argue — as Kansas cutters did — that if only they had cut education and infrastructure funding more drastically, the state would have balanced the budget and in the process outpaced national growth rates instead of falling well short of them? What new businesses really wanted, in addition to the tax cuts, was more potholes and more poorly educated workers?

Massive income tax cuts would cause harm. Education spending in Iowa accounts for over half of the state budget. Tax cuts of the magnitude some contemplate would have very serious consequences for our public schools. Such cuts would force tuition up drastically at community colleges and regents institutions. Our court system would be forced into further personnel cuts, meaning long delays for those seeking justice. We would see more children suffer as family service workers face ever higher caseloads.

Let's not rewrite history, and condemn ourselves to repeating it.

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<sup>1</sup> Center on Budget and Policy Priorities, <https://www.cbpp.org/research/state-budget-and-tax/kansas-provides-compelling-evidence-of-failure-of-supply-side-tax-cuts>