The Kansas Experiment

02 Jan 2017

245-2017-01

What is the Kansas Experiment?

In May 2012, Kansas Governor Sam Brownback signed into law the Kansas Senate Bill Substitute HB 2117, one of the largest income tax cuts in Kansas' history. The law eliminates income taxes for the owners of 191,000 businesses, and cuts individual's income tax rates. Specifically, it reduced the top income tax rate from 6.45% to 4.9%, and reduced the bottom rate from 3.5% to 3%. The income tax cuts would provide US$231 million in tax relief in its first year, growing to US$934 million after six years.

Brownback described the tax cuts as a live experiment, stating that "on taxes, you need to get your overall rates down, and you need to get your social manipulation out of it, in my estimation, to create growth. We'll see how it works. We'll have a real live experiment."

Brownback compared his tax cut policies with those of Ronald Reagan, and announced a "prosperous future" for Kansas by having elected the economic principles that Reagan laid out in 1980s. The same bill also eliminated one of the three brackets in the state's tax plan, as well as the entire income tax owed by hundreds of thousands of small businesses across the state. As he and his fellow conservatives see it, it's an ''open for business'' sign, one they hope will draw free enterprise to the state. At the very least, they hope it will prevent young people and existing businesses from moving elsewhere.

Kansas Governor Sam Brownback

So, with Sam Brownback being re-elected as governor in 2014, “The Kansas Experiment” will continue for at least two more years. Whatever you think of its merits, it is one of the boldest and most ambitious agendas undertaken by any politician in America. Brownback calls it the ‘‘march to zero,’’ an attempt to wean his state’s government off the revenues of income taxes and to transition to a government that is financed entirely by what he calls consumption taxes — that is, sales taxes and, to a lesser extent, property taxes.

Ronald Reagan’s Tax Cut Plan – Reaganomics or Supply-side Economics

Reaganomics refers to the economic policies promoted by U.S. President Ronald Reagan during the 1980s. These policies are commonly associated with supply-side economics, referred to as trickle-down economics or voodoo economics by political opponents, and free-market economics by political advocates. The four pillars of Reagan's economic policy were to reduce the growth of government spending, reduce the federal income tax and capital gains tax, reduce government regulation, and tighten the money supply in order to reduce inflation.

How did Ronald Reagan’s Tax Cut Plan Workout?

Some economists have stated that Reagan's policies were an important part of bringing about the second longest peacetime economic expansion in U.S. history. During the Reagan administration, the American economy went from a GDP growth of -0.3% in 1980 to 4.1% in 1988 averaging 7.91% annual growth in current dollars.

This reduced the unemployment rate by 1.6%, from 7.1% in 1980 to 5.5% in 1988. A net job increase of about 21 million also occurred through mid-1990. Reagan's administration is the only one not to have raised the minimum wage. The inflation rate, 13.5% in 1980, fell to 4.1% in 1988, which was achieved by applying high interest rates by the Federal Reserve (peaking at 20% in June 1981).

Ronald Reagan in 1981 outlining his Tax Reduction Plan

The down-side of Reagan's Tax Policies

As a short-run strategy to reduce inflation and lower nominal interest rates, the U.S. borrowed both domestically and abroad to cover the Federal budget deficits, raising the national debt from $997 billion to $2.85 trillion. This led to the U.S. moving from the world's largest international creditor to the world's largest debtor nation. Reagan described the new debt as the "greatest disappointment" of his presidency.

Regardless, Ronald Reagan was one of the most popular presidents in US history!

Define Supply-side Economics

Supply-side economics is a macroeconomic theory that argues economic growth can be most effectively created by investing in capital and by lowering barriers on the production of goods and services. According to supply-side economics, consumers will then benefit from a greater supply of goods and services at lower prices; furthermore, the investment and expansion of businesses will increase the demand for employees and therefore create jobs. Typical policy recommendations of supply-side economists are lower tax rates and less government regulation.

What are the main differences between the Republican and Democratic approaches to regulating the economy?

Generally speaking, the Republican Party is considered more business friendly and favors a more limited role of government in terms of regulating the economy. This includes less regulation on business, such as restrictions that might seek to relegate the pursuit of profits to environmental concerns, labor union interests, healthcare benefits and retirement payouts. Given this more pro-business bias, Republicans tend to receive support from the owners of business and investment capital, as opposed to the labor component that constitutes workers and their interests.

Generally speaking, the Democratic Party relies more heavily on government intervention to influence the economy's direction and keep the profit motive of businesses more at bay. Higher regulation comes with increased costs, which Democrats can support through higher taxation. As a result, the party is also described as "tax and spend," with a belief that businesses are more focused on earning a return for shareholders and willing to cut corners in terms of protecting the overall social good.

What Economic policies do the American people favor most?

The following 2016 Election Map might help tell the story – 30 states for Republican Candidate Trump (in red) and 20 states for Democratic Candidate Clinton (in blue). However, Hillary Clinton did win the popular vote.

What are the US states that do not impose state income taxes?

These nine (9) states: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming.

How do States with No Income Tax Generate Income?

There are seven states in the United States that have no income tax whatsoever, and another two that don't tax wage income. Living in one of these states may sound appealing -- after all, your paycheck is likely to be higher if you choose to work there. However, that doesn't necessarily mean you'll get to keep more of your salary. Here are the states with no income tax, and what you should know about each one before considering a move.

Anchorage Alaska

1. **Alaska -- Not only does Alaska have no income tax, but it has no state sales tax either, choosing to pay for state expenses with its petroleum revenue. To make the deal even sweeter, Alaska residents also receive a share of the state's royalties, which amounted to $2,072 per person in 2015.**
2. **Florida -- As a tourist-rich state, Florida brings in lots of sales tax revenue, which is enough to fund the state government. Local governments are funded through property taxes, which are above the national average.**
3. **Nevada -- Similar to Florida, Nevada funds its state operations through sales taxes, and derives a large portion of its revenue from gambling-related taxes and fees.**
4. **South Dakota -- The sales tax in South Dakota is just 4%, but the state has various use taxes that produce a lot of revenue.**

5. **Texas -- State and local revenue in Texas comes from sales taxes, as well as from royalties on the state's oil and gas production.**
6. **Washington (state) -- Voters in Washington rejected a proposal to implement a state income tax in 2010, choosing to deal with high sales taxes and one of the highest gasoline taxes in the country instead.**
7. **Wyoming -- In addition to having no income tax, Wyoming doesn't have a corporate income tax either. Instead, state revenue primarily comes from natural-resource revenue (coal mining and oil), as well as property taxes.**
8. **New Hampshire – Doesn't tax wage income, but does have a tax on dividends and interest income. New Hampshire collects taxes on dividend and interest income above $2,400 ($4,800 for joint filers), and offers additional exemptions for blindness, disability, and age.**
9. **Tennessee -- Doesn't tax wage income, but does have a tax on dividends and interest income. However, Tennessee charges its residents the highest state sales tax levied within the United States, coming in as high as 9.44% in combined state and local sales tax rates.**

As you can see, states that do not require its citizens to pay state income taxes do still collect revenues from the citizenry, just through different means. These means can be via sales tax, corporate income tax, property tax, tangible and intangible personal property tax and more. The government is going to get your money one way or another.

In these nine "no tax" states, poor Americans actually pay a bigger percentage of their income in state taxes than other income classes. The average state tax burden for the bottom 20% of the population is 11.1% – and the top 1% of earners shoulders a tax burden of only 5.6%.

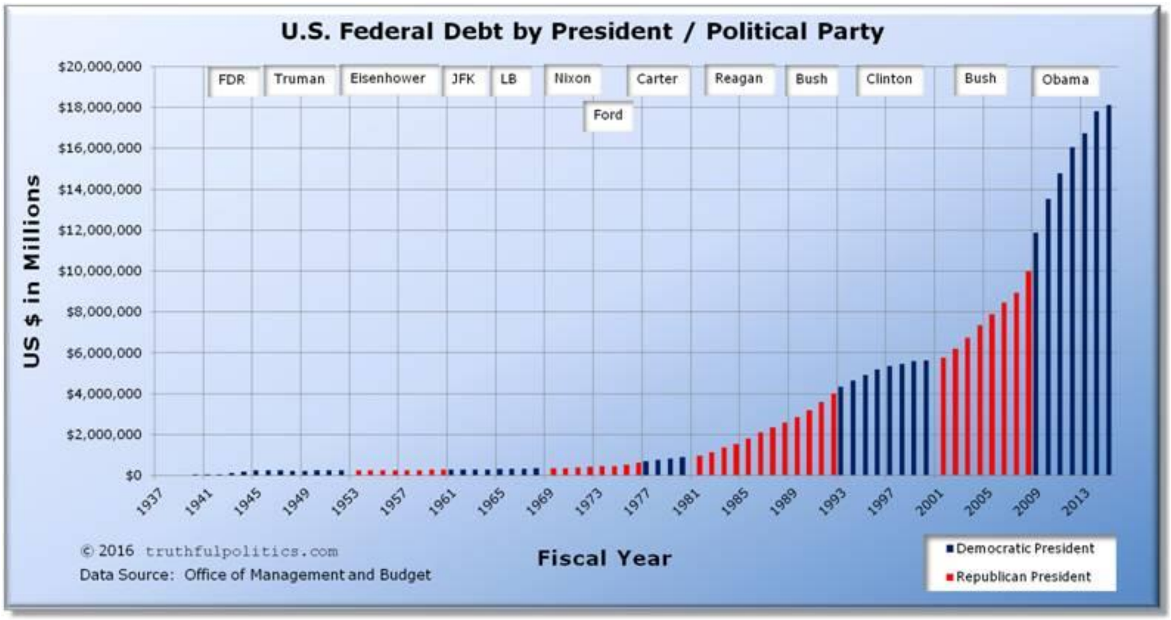
What is the National Debt and why does it keep going UP?

Right now, at the very moment I'm writing this paragraph, the national debt is $19,942,778,800,078. For you non-math majors, that big number is almost $20 trillion dollars. To put it another way, every man, woman, and child in the U.S. effectively owes more than $62,000.00 each thanks to our government's free-spending ways.

Donald Trump recently told Fortune Magazine that "if I had a choice of taking over debt free or having $19 trillion in debt — which by the way is going up to $21 trillion very soon because of the latest omnibus budget, which is a disaster. If I had my choice, I'll take no debt every time." Trump admits that he cannot pay off the entire debt but does want to pay off a large percentage of it during his term(s) in office.

If the American people managed their budgets like the United States Government in Washington D.C. does, we would all be BANKRUPTED!

During which President's Term did the National Debt go up the most?
From 1940 to the end of year 2015, the average increase in the federal debt was 9.3% under a Democratic President and 7.9% under a Republican President.



Increase in Billions US $	President	Political Party
$153	Franklin D. Roosevelt	Democratic
$55	Harry S. Truman	Democratic
$31	Dwight D. Eisenhower	Republican
$20	John F. Kennedy	Democratic
$58	Lyndon B. Johnson	Democratic
$115	Richard Nixon	Republican
$145	Gerald Ford	Republican
$280	Jimmy Carter	Democratic
$1,692	Ronald Reagan	Republican
$1,401	George H.W. Bush	Republican
$1,627	Bill Clinton	Democratic
$4,357	George W. Bush	Republican
$9,000+	Barack H. Obama	Democratic

RANKING THE STATES BY FISCAL CONDITION
(June 2016 Edition)

1. Alaska	2. Nebraska	3. Wyoming
4. North Dakota	5. South Dakota	6. Florida
7. Utah	8. Oklahoma	9. Tennessee
10. Montana	11. Ohio	12. Idaho
13. Nevada	14. Missouri	15. Alabama
16. Texas	17. Indiana	18. South Carolina
19. Virginia	20. New Hampshire	21. North Carolina
22. Colorado	23. Georgia	24. Washington
25. Iowa	26. Minnesota	27. Pennsylvania
28. Arkansas	29. Wisconsin	30. Oregon
31. Arizona	32. Mississippi	33. Louisiana
34. New Mexico	35. Michigan	36. Vermont
37. Rhode Island	38. Delaware	39. West Virginia
40. Kansas	41. Maryland	42. New York
43. Maine	44. California	45. Hawaii
46. Kentucky	47. Illinois	48. New Jersey
49. Massachusetts	50. Connecticut	

Voted Republican **Voted Democratic**

The Mercatus Center at George Mason University ranks each US state's financial health based on their fiscal solvency in five separate categories:

• Cash solvency. Does a state have enough cash on hand to cover its short-term bills?

• Budget solvency. Can a state cover its fiscal year spending with current revenues, or does it have a budget shortfall?

• Long-run solvency. Can a state meet its long-term spending commitments? Will there be enough money to cushion it from economic shocks or other long-term fiscal risks?

• Service-level solvency. How much "fiscal slack" does a state have to increase spending if citizens demand more services?

• Trust fund solvency. How much debt does a state have? How large are its unfunded pension and healthcare liabilities?

Summary of the above Fiscal Condition Chart

Overall, Republican states dominate as being in the best financial health. Kansas ranks 40th among the US states. The only Republican state that is in worse shape than Kansas is Kentucky.

State of Kansas Information, Statistics, and Facts

Kansas is located in the Midwestern part of the United States. Its capital is Topeka and its largest city is Wichita. The largest metro area is Kansas's portion of Kansas City. Kansas is named after the Kansa Native American tribe, which inhabited the area. The tribe's name is often said to mean "people of the wind" or "people of the south wind", although this was probably not the term's original meaning. For thousands of years, what is now Kansas was home to numerous and diverse Native American tribes. Tribes in the eastern part of the state generally lived in villages along the river valleys. Tribes in the western part of the state were semi-nomadic and hunted large herds of bison.

Kansas was first settled by European Americans in 1812, in what is the now Bonner Springs, Kansas, but the pace of settlement accelerated in the 1850s, in the midst of political wars over the slavery issue. When it was officially opened to settlement by the U.S. government in 1854, abolitionist Free-Staters from New England and pro-slavery settlers from neighboring Missouri rushed to the territory to determine whether Kansas would become a free state or a slave state. Thus, the area was a hotbed of violence and chaos in its early days as these forces collided, and was known as Bleeding Kansas. The abolitionists eventually prevailed, and on January 29, 1861, Kansas entered the Union as a free state. After the Civil War, the population of Kansas grew rapidly when waves of immigrants turned the prairie into farmland.

Kansas is bordered by Nebraska on the north; Missouri on the east; Oklahoma on the south; and Colorado on the west. The state is divided into 105 counties with 628 cities, and is located equidistant from the Pacific and Atlantic oceans. The geographic center of the 48 contiguous states is located in Smith County near Lebanon, Kansas.

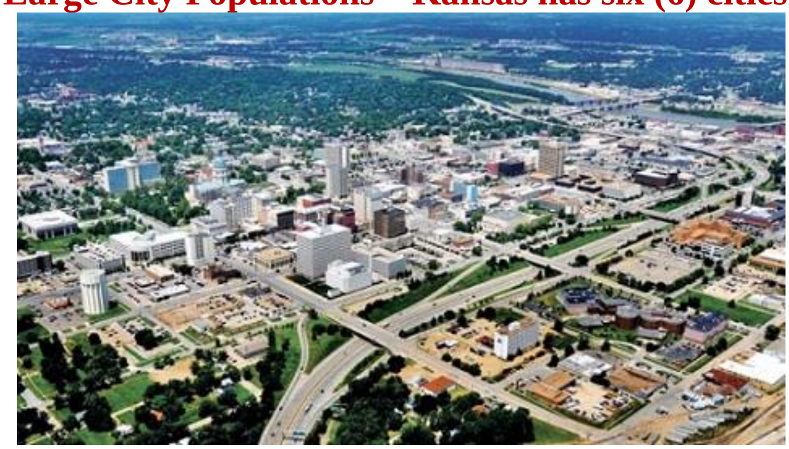
The western two-thirds of the state, lying in the great central plain of the United States, has a generally flat or undulating surface, while the eastern third has many hills and forests. It is a popular belief that Kansas is the flattest state in the nation, reinforced by a well-known 2003 tongue-in-cheek study stating that Kansas was indeed "flatter than a pancake". This has since been called into question and by any measure, Florida takes the prize for the flattest state in the nation because the highest point in the state is only 345 feet above sea level.


Great Plain


Hay Field

Kansas with its 82,278 square miles is the 15th largest state and with its about 3.0 million people the 34th most populous state. Residents of Kansas are called "Kansans", officially. Mount Sunflower is Kansas's highest point at 4,041 feet high. The Verdigris River is the lowest point at 679 feet and the average elevation for the State of Kansas is 2,000 feet.

Large City Populations – Kansas has six (6) cities with over 90,000 people:


Wichita – The Largest City in Kansas

1.	**Wichita**	**390,000**
2.	**Overland Park**	**185,000**
3.	**Kansas City**	**150,000**
4.	**Olathe**	**135,000**
5.	**Topeka**	**130,000**
6.	**Lawrence**	**95,000**

Race and ethnicity - The racial makeup of the population is:

- **83.8% of the population is White**
- **5.9% is Black**
- **1.0% American Indian or Alaska Native**
- **2.4% Asian**
- **0.1% Native Hawaiian or other Pacific Islander**
- **3.0% from two or more races.**

Ethnically, 10.5% of the total population was of Hispanic or Latino origin (they may be of any race).

Kansas City (On border of Missouri and Kansas)

Religion - The religious makeup of Kansas is:

Christian 76%,

- **31% Evangelical Protestant**
- **24% Mainline Protestant**
- **2% Black Protestant**
- **18% Catholic**
- **1% Mormon**
- **1% Jehovah's Witness**

Non-Christian faiths 4%

Unaffiliated 20%

Economy – (Taken from Wikipedia)

The agricultural outputs of the state are cattle, sheep, wheat, sorghum, soybeans, cotton, hogs, corn, and salt. Eastern Kansas is part of the Grain Belt, an area of major grain production in the central United States. The industrial outputs are transportation equipment, commercial and private aircraft, food processing, publishing, chemical products, machinery, apparel, petroleum and mining. Kansas ranks 8th in U.S. oil and natural gas production. Production has experienced a steady, natural decline as it becomes increasingly difficult to extract oil over time. Since oil prices bottomed in 1999, oil production in Kansas has remained fairly constant, with an average monthly rate of about 2.8 million barrels. The recent higher prices have made carbon dioxide sequestration and other oil recovery techniques more economical.

The Kansas economy is also heavily influenced by the aerospace industry. Several large aircraft corporations have manufacturing facilities in Wichita and Kansas City,

including Spirit AeroSystems, Cessna, Learjet, and Hawker Beechcraft (formerly Raytheon). Major company headquarters in Kansas include the Sprint Corporation (with world headquarters in Overland Park), Embarq (with national headquarters in Overland Park), YRC Worldwide (Overland Park), Garmin (Olathe), Payless Shoes (national headquarters and major distribution facilities in Topeka), and Koch Industries (with national headquarters in Wichita).

So, how is that Great "Kansas Experiment" in "Supply-side Economics" Going?
The short answer is, "Not so Good!!"

Here we are in late 2016 and the Kansas economy is nearly a flatline with job creation flat and revenues showing that businesses and people aren't flocking into the state to spend their money. Kansas was supposed to be the GOP's tax-cut paradise. Now it can barely pay its bills.

Meanwhile, revenue shortfalls have devastated the state's public sector along with its most vulnerable citizens. Since Brownback's inauguration, 1,414 Kansans with disabilities have been thrown off Medicaid. In 2015, six school districts in the state were forced to end their years early for lack of funding. Cuts to health and human services are expected to cause many preventable deaths. Earlier this year, tax receipts came in $53 million below estimates; Brownback immediately cut $17 million from the state's university system. FY2016 ended with $87 million worth of unpaid bills

Here is the latest FY 2017 Kansas Budget

State General Fund
FY 2017
(July 1, 2016 to June 30, 2017)
(Dollars in Millions)

Beginning Balance	$ 37
Estimated Receipts	$ 5,980
Total Available	$ 6,017
FY 2017 Expenditures	$ 6,270
FY 2016 Unpaid Bills	$ 87
Approved Expenditures	$ 6,357
Ending Balance	$ (340)

Total receipts from Nov. 10 estimate. The total includes one-time transfers of $276 million from the highway fund, $75 million from other funds, and proceeds from the sale of the Bioscience Authority.

Total incorporates emergency budget cuts already made by the governor to higher education, Medicaid providers, and state agencies.

The official estimate of revenue for this fiscal year has just been revised sharply downward that means lawmakers must immediately cut $340 million from the current budget, just to keep the general fund barely solvent. As a result, for the fourth year in a row, Kansas does not have nearly enough revenue to pay bills. This year, though, the situation is dire because lawmakers have already used up all of the reserves ($709 million at the beginning of FY 2014), and tapped out the highway fund, leaving little flexibility. Plus, the governor earlier applied deep emergency budget cuts to state agencies, higher education, and Medicaid providers. Even so, another $340 million must somehow go before June 30. Public education and every other state service stand in serious danger.

This data is not lost on the people of Kansas — as of November, 2016, Brownback's approval rating was 26 percent, the lowest of any governor in the United States.

Kansas State Capitol Building

The November 8th 2016 election

Gov. Sam Brownback (R-KS) wasn't on the ballot, but November elections suggested that even the state's Republicans believe his Kansas experiment has been a failure.

The GOP Primary was a bloodbath for Brownback's buddies in the state legislature. Five far-right conservatives in Kansas' House and six state senators lost their seats to Republican challengers. The losing incumbents included Senate Majority Leader Terry Bruce, an oft-ally of the governor. The hardliners were defeated by a wave of moderate Republicans, who were also victorious in a number of open elections. The purge of Tea Party state lawmakers -- by Republican primary voters no less -- is being

viewed in the state as a referendum on Brownback's agenda on cutting taxes and shrinking government to minuscule levels.

Donald Trump has stated that he plans to cut taxes and implement economic policies similar to those in Kansas. Well, the results are in and it would probably be a bad idea to make drastic tax cuts like those done in Kansas by Gov. Sam Brownback.

The Solution

Well, it is obvious that Kansas Lawmakers must do something immediately to increase revenues. The only way left is to increase taxes and close the loophole which allows business income to go untaxed.

Will Gov. Sam Brownback sign a bill rescinding at least a portion of the 2012 tax cuts? Nobody knows. But despite the barriers, lawmakers must forge ahead because the stakes for Kansas are enormous.