

# Austerity Is Not the Answer

## Lessons for Kentucky from a National Perspective



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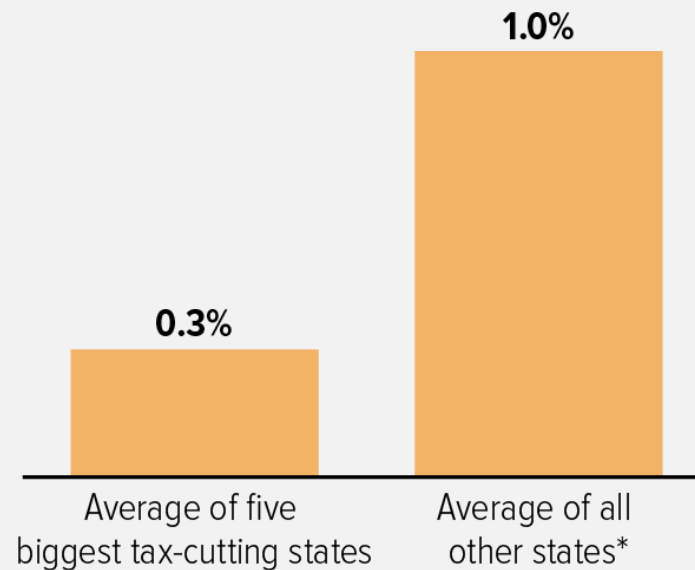
# Big Tax Cuts Don't Boost Economies or Help Families Thrive

- Cuts cause declines in state revenue that have to be accounted for in a balanced state budget – **usually by cutting core public services.**
- Personal income tax cuts **worsen racial and ethnic inequities** by benefitting wealthier, white residents at the expense of communities of color.
- Corporate income tax cuts **limit available revenue for public investments** and don't translate into strong economic growth.

Tax cuts of  
the 1990s  
didn't  
produce  
higher  
growth

## The Five States That Cut Taxes the Most in the 1990s Had Slower Job Growth Than Other States

Average annual growth in employment over  
next economic cycle, 2000-2007



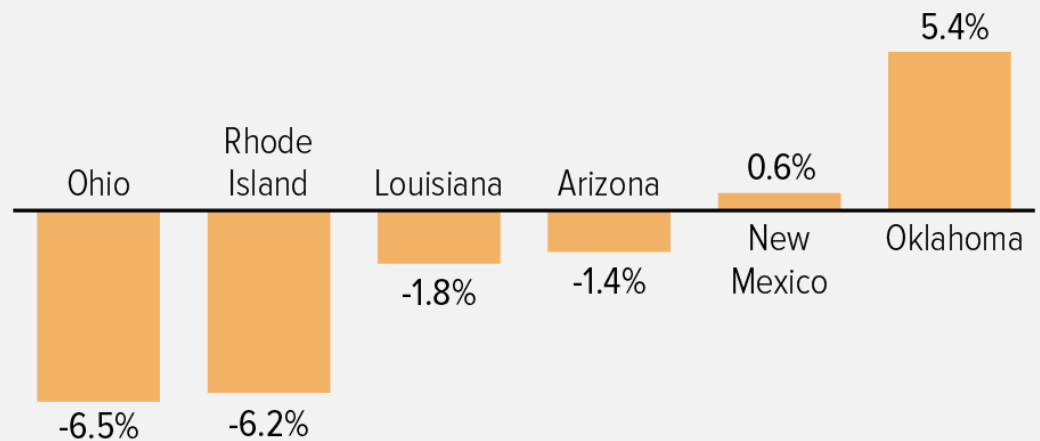
\*Average does not include NJ, which was one of the six states with the largest tax cuts in the 1990s (along with CO, CT, DE, MA, and NY), but - unlike those states - raised taxes enough in the 2000s to offset the 1990s tax cuts.

Source: CBPP calculations of Bureau of Labor Statistics data

Neither did those enacted in the early 2000s

## Most States That Enacted Large Tax Cuts in 2001-2007 Have Not Seen Strong Job Growth Since They Took Effect

Change in share of US nonfarm employment, year before tax cuts enacted through 2014



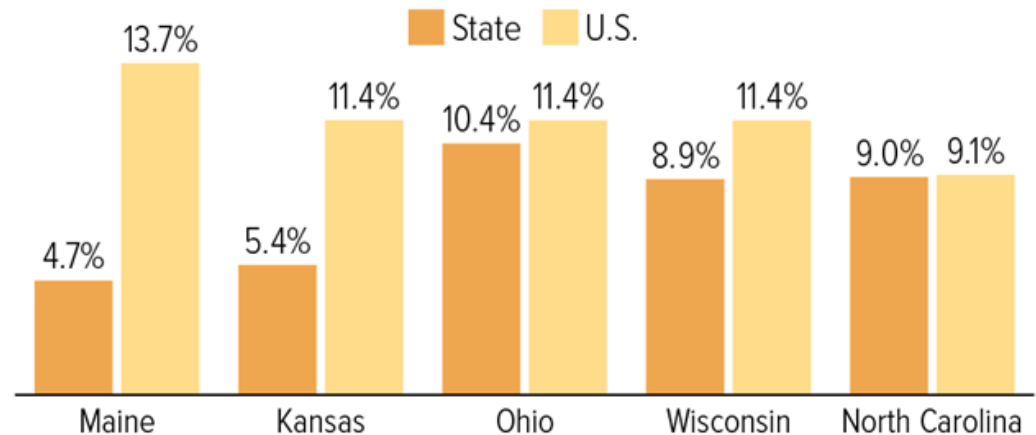
Source: CBPP analysis of Bureau of Labor Statistics data

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Nor did those enacted after the Great Recession

## Biggest Tax-Cutting States Didn't See Economies Take Off

Growth in private state and national gross domestic product during period the tax cuts have been in effect



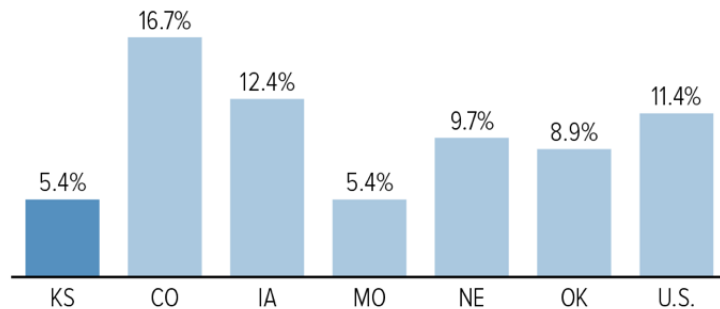
Note: Effective dates for tax cuts are Jan. 2012 for Maine, Jan. 2013 for Kansas, June 2013 for Ohio and Wisconsin (retroactive to Jan. 2013), and Jan. 2014 for North Carolina. In June 2017, Kansas restored some but not all of its tax cuts; the figures above for Kansas reflect the period between enactment and repeal of the majority of the January 2013 tax cuts.

Source: Chained, quarterly private GDP from Bureau of Economic Analysis, February 2018

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## Economic Growth: Kansas Lagged All Its Neighbors and U.S. After Cutting Taxes

Growth in inflation-adjusted private-sector gross domestic product



Note: Data cover fourth quarter 2012 (the quarter before the Kansas tax cuts took effect) to second quarter 2017 (the quarter in which the tax cuts were scaled back).

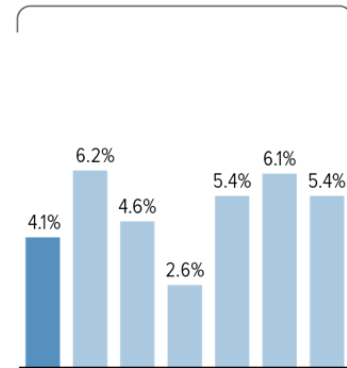
Source: Bureau of Economic Analysis, 2017

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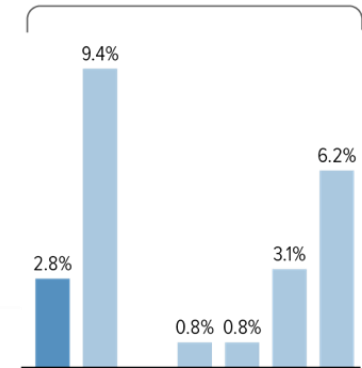
## Growth in New Business Owners: Kansas Lagged Most Neighbors and U.S. After Cutting Taxes

Growth in number of federal tax returns reporting income from pass-throughs, 2012-2015

S Corporations and partnerships



Sole proprietorships



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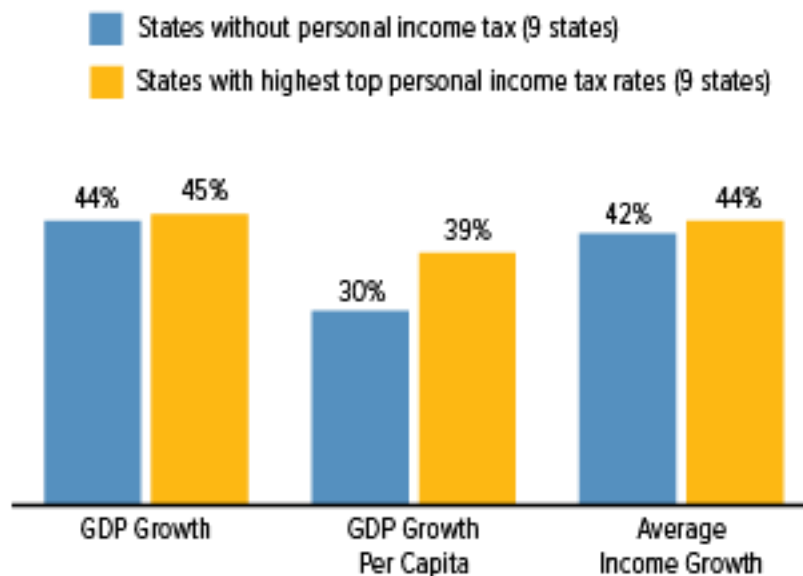
Note: Pass-through businesses are firms whose owners report their profits on their individual income tax returns. Includes limited liability companies (LLCs).

Source: Internal Revenue Service, Statistics of Income

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## Economic Growth is Strong in States with Income Taxes, 2000-2019



Source: ITEP

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# How Kentucky Can Make the Most of This Moment

## 1. Sharply limit tax cutting.

- If you *must* cut taxes, target benefits for people and communities that really need it, like the [14 states and U.S. Territories](#) who created or expanded their EITCs in 2021

## 2. Raise taxes on those who can afford it.

- Last year, Washington State created a new tax on capital gains above \$250K per year to help support child care, early learning, and public schools

## 3. Prioritize people-centered investments in current needs.

- Colorado committed over \$130M of federal aid through the American Rescue Plan to affordable housing



**“Don't tell me what you value.  
Show me your budget, and I'll  
tell you what you value.”**

**— President Biden**

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