

Summary – Tax Policy and Economic Problems

The current push in Kansas and Nationwide for the Supply-Side tax cuts, favored by the Reagan and George W. Bush Administrations and economist Arthur Laffer, strikes me as very opportunistic. We're in the longest and deepest recession since the Great Depression of 1933. People are angry, afraid, and confused. The classic example of confusion is the sign that said, "Keep your government hands out of my medicare."

Economist Arthur Laffer is credited with designing the Reagan and George W. Bush administrations Supply-Side tax policies. At a lunch with Donald Rumsfeld and Dick Cheney, Laffer famously drew a curve on a napkin which purported to show that, over a certain range, reductions in tax rates would lead to increases in tax revenues. Those whose taxes are reduced will use their additional revenues to create jobs and stimulate the economy. This is the economic philosophy in the tax proposals before the 2012 Kansas Legislature.

Keynesian, or Demand-Side philosophy seeks to manage an economy to keep it on an even keel and avoid fluctuations in the business cycle, both the booms with their rising prices, and busts with their unemployment. Keynesians favor progressive taxation to generate revenues to finance needed public investment, and to provide some social protection for those at the bottom, including the unemployed.

Today we live in a global economy. Business seeks to maximize profits. Jobs and capital flow nation and worldwide. Policy decisions can and have resulted in financial crises. A major example is the **Gramm-Leach-Bliley Act of 1999**, passed with bi-partisan support, which ended the provisions in the Glass-Steagall Act of 1933. Glass-Steagall separated banking and investment activities as protection against the profiteering and greed that led to the Great Depression.

Groups have been working to rid banking of these consumer protection regulations since the inception of Glass-Steagall, as they continue to work today against regulations now found in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. This Act attempts to bring back elements of Glass-Steagall.

The Gramm-Leach-Bliley Act resulted in a housing bubble that could not sustain itself, and a derivatives market of "toxic assets" that spread throughout investments worldwide. The U.S. lost of 8 million jobs, businesses failed, 401-K's and pension funds lost money, and many people's personal savings were wiped out. Between December 2007 and June 2010 a total of 2.36 million U.S. properties were repossessed by lenders through foreclosure, with more since.

Without the requirements in Glass-Steagall, large banks held worthless assets and were beyond their ability to stay financially solvent. They were deemed "too big to fail." The Troubled Asset Relief Program (TARP), spent \$700 billion in taxpayers' money to bail out these banks. In September 2010, a team at Bloomberg News estimated that as much as \$12.8 trillion was lent, spent or guaranteed by the U.S. to rescue the economy.

The Tax Proposal before the 2012 Legislature was crafted with help from Arthur Laffer. This proposal lowers the state's highest income-tax bracket from 6.45 to 4.9 percent. The lowest tax bracket would drop from 3.5 to 3 percent. Low-income taxpayers would pay \$88.2 million more in taxes while the wealthy would pay \$110 million less. It ensures that low and middle-income families pay more, while dramatically decreasing taxes owed by the wealthiest Kansans. Today 377,000 Kansans are living at or below the federal poverty level. Almost 24 percent of Kansas Children are already living in poverty. US Census figures prove those numbers are on the rise.

Under current economic conditions, how could anyone trade reduced taxes on the highest income bracket for increased taxes on those with the lowest incomes on the belief that wealthy people will spend their additional money to create jobs? The LWVK position statement on State Revenue emphasizes fairness and adequacy in tax policy. We need to advocate our current position for tax equity and adequacy. Now is not the time for experimental tax policy.

Respectfully submitted, Carol Jacobson,