Exposing the Wisconsin “Tax Hell”

Hoax: Why spending caps on state and local government are wrong for Wisconsin

Jack Norman | January 2005
Exposing the Wisconsin “Tax Hell” Hoax:
Why spending caps on state and local government are wrong for Wisconsin

Jack Norman | January 2005
Executive Summary

Wisconsin is moving toward a major legislative debate in 2005 about proposed constitutional and/or statutory limits on spending by state and local governments. The focus will be on a proposed amendment to the state Constitution that would cap state and local revenue and spending — the so-called Taxpayers’ Bill of Rights (TABOR). A recent report from the Wisconsin Policy Research Institute (WPRI), Limiting Government Spending in Wisconsin, was produced to support such spending limits by exaggerating state spending and tax levels as well as minimizing the negative impact of public service cuts required to enact these spending caps. The report presents a false picture of Wisconsin to promote TABOR legislation.

The image of “Wisconsin as a tax hell” has been carefully cultivated by conservative forces in recent years to create an appearance of legitimacy for proposed limits on government spending. When one looks carefully at the facts, however, there is no tax hell to be found. It is a politically expedient figment of the right-wing imagination.

The WPRI report is equally inaccurate in promoting spending caps as a safe road to a prosperous future. This concept is totally implausible. It ignores the deluge of problems created by the existing educational spending limits in Wisconsin as well as the dismal situation that Colorado residents face after a dozen years of strict revenue caps.

The WPRI report claims that Wisconsin’s spending levels for public services are unacceptable because the “state and local spending in Wisconsin is 7.7% above the national average.” The WPRI report grossly exaggerates the significance of this number by failing to put it in any comparative framework. To analyze spending levels accurately, it is critical to view these numbers in context. This shows that Wisconsin is well within the national norm for public sector spending.

- Wisconsin spending and taxes are in the middle range of states, ranking only 18th highest in the nation, much closer to the middle than to the high end.
- Wisconsin is the median level of spending among its neighboring states.
- Wisconsin spending has been moved steadily downward vis-à-vis the national average.
Wisconsin state and local taxes now take a smaller bite of total income than in the 1980s or ’90s.

Wisconsin’s rank varies dramatically when taxes are compared among states. On the measure that best reflects total payments to government, Wisconsin ranks 15th.

Legislative changes to the state tax system have systematically shifted the burden away from business and onto individual and family taxpayers.

Wisconsin’s top income tax rate is the lowest it has been since 1931.

The report asserts that limits on government spending would lower taxes while still providing enough revenue to provide quality public services. But a multi-billion dollar cut in state and local budgets would reduce aid to education by over $1 billion, resulting in the dismissal of more than 5,000 public school teachers. It would impact public safety by eliminating 2,000 police and fire fighters. There would also be dramatic cuts in social services, health care efforts, veterans programs, housing assistance, state park maintenance, waste disposal, and highway repairs. The report states that Wisconsin’s public education system is doing well under current revenue caps, ignoring the statewide crisis in school funding that has already caused serious cuts in teaching staff, coursework, building maintenance and technology. In addition, this report claims that Colorado is flourishing under TABOR, in spite of the fact that the state has been forced to make major cuts in public safety, education, healthcare, park operations and roadway maintenance. Colorado’s economy has become much weaker since 1992 when the state adopted constitutional spending limits.

According to WPRI’s report, it is critical to reduce the ratio of government spending to income by cuts in spending. However, this ignores the more productive option of raising household incomes through worker training and targeted economic development. The report alleges that spending caps will bolster economic development. However, there is overwhelming research evidence that tax levels have little to do with business location decision-making which is primarily based on workforce skills and the quality of state infrastructure.

In short, the WPRI report exaggerates the level of spending and taxes in Wisconsin, minimizes the potentially destructive effects of artificial revenue and spending limits and ignores a number of well-researched alternatives for strengthening the Wisconsin economy. Because the author has presented facts selectively to support the TABOR amendment, the report fails to provide the accurate information required to establish sound public policy.
Introduction

Research is often used to support political agendas. Advocates collect and use data to prove their points on a daily basis. People generally understand that these facts can be tweaked in many directions, depending on the motivation of the tweaker. There is a line, however, between spinning statistics and distorting the facts. A recent report from the Wisconsin Policy Research Institute (WPRI), Limiting Government Spending in Wisconsin — full of selective information, partial analysis and biased interpretation — crosses this line.

Wisconsin is moving toward a major legislative debate in 2005 about proposed constitutional and/or statutory limits on spending by state and local governments. The focus will be on a proposed amendment to the state Constitution that would cap state and local revenue and spending: the so-called Taxpayers’ Bill of Rights (TABOR). This WPRI report was designed to support such spending limits. It was written to exaggerate the sense of crisis about the state’s fiscal situation and to minimize concerns about the impact of public service cuts required under spending caps. The report significantly overstates the significance of some facts, conceals others, and uses the appearance of scientific rigor to lend support to a false picture of Wisconsin’s economy.

The image of “Wisconsin as a tax hell” has been cultivated by conservative forces over the past several years to create an appearance of legitimacy for proposed limits on government spending. When one looks carefully at the facts, however, there is no tax hell to be found. It is a politically expedient figment of the right-wing imagination.

The WPRI report is equally creative in promoting spending caps as a safe road to a prosperous future. This concept is totally implausible. It ignores the deluge of problems created by the existing educational spending limits in Wisconsin as well as the dismal situation that Colorado residents face after a dozen years of strict revenue caps.
WPRI’s Claims

The WPRI report was written by Richard Chandler, Secretary of Revenue and Director of the Budget under Republican governors Tommy G. Thompson and Scott McCallum. There are three primary propositions in his report:

1 Wisconsin is “a tax hell” with state and local government taxing and spending far higher than Midwestern states and the nation as a whole.  

2 Caps or limits on spending would bring the state down to national and regional averages while still allowing “state and local governments to provide quality public services in Wisconsin.”

3 Spending limits would not only lower tax burdens, but also are needed to “help the state become more competitive economically.”

None of these claims are supported by the facts.

---

1 Wisconsin spending and taxation patterns

**WPRI’S CLAIM:** Wisconsin’s high spending levels for public services have created a “tax hell”

The pivotal claim in the WPRI report is that “state and local spending in Wisconsin is 7.7% above the national average, which meant that government spending in Wisconsin was $2.44 billion more than if we had spent at the national average level.”

The 7.7% figure refers to how much of total income Wisconsin spends on government, compared with the national average. In Wisconsin in fiscal year (FY) 2002, state and local governments spent about 21.4% of total state income. The national average was about 19.9%. Wisconsin’s share (21.4%) is 7.7% greater than the national share (19.9%).

From WPRI’s point of view, this level of spending results in “spending and tax levels [that] are a burden on Wisconsin’s citizens and a drag on the state’s economy.”

**COUNTERPOINT:** Wisconsin spending and taxes are in the middle range of states across the nation

The WPRI report grossly exaggerates the level of state spending by failing to put the key figures in any comparative framework. To be accurate, it is critical to view the numbers in several contexts:

Institute for Wisconsin’s Future
The context of the other 49 states: Wisconsin’s spending level is only 18th highest among all states. [See Chart 1] Contrary to the impression given by the report, Wisconsin is actually much closer to the middle than to the high end. Like other tax-cut advocates, Chandler routinely uses interstate comparisons. But not for this number. The report repeatedly cites the 7.7% figure, but not once was it placed in the context of other states, where it is well within the middle half.

Chart 1: Wisconsin’s government spending is 18th in U.S. — No tax hell

Wisconsin state and local government spending was 21.4% of total state income in 2002. That’s above the US average but well within the mainstream.
The context of the Midwest: Wisconsin is exactly in the middle among neighboring states on WPRI’s measure of spending. In Iowa and Minnesota, state and local governments spend a slightly larger percentage of income. In Illinois and Michigan, they spend a lower percentage. [See Table 1] The report ignores this by calculating the average figure for those states (and also including Indiana). Averages can be very misleading, because one particularly low or high number greatly affects the average. The median or midpoint is a much more accurate measure. Wisconsin is already the median state in its region. Do we need to amend the state Constitution just to transform Wisconsin from the median state to the average state?

Table 1: State and local government spending as a percent of income (FY02)

Wisconsin is the median among its bordering states (in bold). The WPRI report hides the fact that Wisconsin is in the middle among states.

<table>
<thead>
<tr>
<th>State</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alaska</td>
<td>41.9%</td>
</tr>
<tr>
<td>New Mexico</td>
<td>25.9%</td>
</tr>
<tr>
<td>Wyoming</td>
<td>25.6%</td>
</tr>
<tr>
<td>Mississippi</td>
<td>24.5%</td>
</tr>
<tr>
<td>New York</td>
<td>23.7%</td>
</tr>
<tr>
<td>Hawaii</td>
<td>23.7%</td>
</tr>
<tr>
<td>North Dakota</td>
<td>23.6%</td>
</tr>
<tr>
<td>West Virginia</td>
<td>23.5%</td>
</tr>
<tr>
<td>South Carolina</td>
<td>23.4%</td>
</tr>
<tr>
<td>Oregon</td>
<td>23.3%</td>
</tr>
<tr>
<td>Utah</td>
<td>22.8%</td>
</tr>
<tr>
<td>Montana</td>
<td>22.7%</td>
</tr>
<tr>
<td>Maine</td>
<td>22.6%</td>
</tr>
<tr>
<td>Alabama</td>
<td>22.2%</td>
</tr>
<tr>
<td>Louisiana</td>
<td>22.0%</td>
</tr>
<tr>
<td>Iowa</td>
<td>21.6%</td>
</tr>
<tr>
<td>Minnesota</td>
<td>21.5%</td>
</tr>
<tr>
<td><strong>WISCONSIN</strong></td>
<td><strong>21.4%</strong></td>
</tr>
<tr>
<td>Vermont</td>
<td>21.4%</td>
</tr>
<tr>
<td>Kentucky</td>
<td>21.3%</td>
</tr>
<tr>
<td>Delaware</td>
<td>21.1%</td>
</tr>
<tr>
<td>Arkansas</td>
<td>21.0%</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>21.0%</td>
</tr>
<tr>
<td>California</td>
<td>20.7%</td>
</tr>
<tr>
<td>Ohio</td>
<td>20.6%</td>
</tr>
<tr>
<td>Idaho</td>
<td>20.6%</td>
</tr>
<tr>
<td>Michigan</td>
<td>20.3%</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>19.9%</td>
</tr>
<tr>
<td>U.S. average</td>
<td>19.9%</td>
</tr>
<tr>
<td>Washington</td>
<td>19.9%</td>
</tr>
<tr>
<td>Nebraska</td>
<td>19.9%</td>
</tr>
<tr>
<td>North Carolina</td>
<td>19.7%</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>19.7%</td>
</tr>
<tr>
<td>Indiana</td>
<td>19.5%</td>
</tr>
<tr>
<td>Kansas</td>
<td>19.5%</td>
</tr>
<tr>
<td>South Dakota</td>
<td>19.1%</td>
</tr>
<tr>
<td>Tennessee</td>
<td>18.7%</td>
</tr>
<tr>
<td>Georgia</td>
<td>18.6%</td>
</tr>
<tr>
<td>Missouri</td>
<td>18.5%</td>
</tr>
<tr>
<td>Arizona</td>
<td>18.2%</td>
</tr>
<tr>
<td>Florida</td>
<td>18.2%</td>
</tr>
<tr>
<td>Nevada</td>
<td>18.2%</td>
</tr>
<tr>
<td><strong>Illinois</strong></td>
<td><strong>18.1%</strong></td>
</tr>
<tr>
<td>Texas</td>
<td>18.0%</td>
</tr>
<tr>
<td>Colorado</td>
<td>17.7%</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>17.0%</td>
</tr>
<tr>
<td>Virginia</td>
<td>16.8%</td>
</tr>
<tr>
<td>Maryland</td>
<td>16.6%</td>
</tr>
<tr>
<td>Connecticut</td>
<td>16.4%</td>
</tr>
<tr>
<td>New Jersey</td>
<td>16.3%</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>14.9%</td>
</tr>
</tbody>
</table>

Source: US Census Bureau, US Bureau of Economic Analysis
- **The context of recent Wisconsin history:** Over the last 20 years, spending in Wisconsin has declined steadily relative to the US average, and is now half the level it was in the mid-1980s.11 [See Chart 2] Also over the past few decades, combined state and local taxes have taken a stable percent of income, even dropping in recent years. [See Chart 3] Similar points are true about the level of property taxes in Wisconsin. 12

**Chart 2: Wisconsin spending has moved steadily toward U.S. average**

*State and local spending, as a percent of income, has long been above the US average, but has trended toward the average since the 1980s*

Source: US Census Bureau, US Bureau of Economic Analysis

**Chart 3: Wisconsin state and local taxes take a smaller bite of income over time**

*There's been no surge in state and local taxes, which now take a smaller percentage of total income than in the 1980s and '90s*

Source: Wisconsin Department of Revenue
The context of state-versus-state tax rankings: The most accurate way to compare taxes in Wisconsin with those in other states is to look at all the forms in which taxpayers give money to support state and local government. This includes state taxes (mostly income and sales taxes), local taxes (mostly property taxes and sales taxes), and also fees for services (including such things as college tuition; license fees for driving, hunting and fishing; fees to enter or camp at a state park; and highway tolls — which are non-existent in Wisconsin).

The WPRI report isolates the one incomplete measure that makes Wisconsin look the worst — state and local taxes without other fees. The report insists that Wisconsin is a "top ten" taxing state, and that the state is "an outlier as a high-tax state." Both claims are very misleading.

Chart 4: There are many ways to compare Wisconsin taxes to other states

The WPRI report focuses only on the measure at the far left, the one making Wisconsin look the worst

Sources: US Census Bureau, US Bureau of Economic Analysis, Wisconsin Legislative Fiscal Bureau, Federation of Tax Administrators, Robert Tannenwald (Federal Reserve Bank of Boston)

On this broadest measure of how much government takes from its citizens, Wisconsin ranks 15th, much closer to the middle than to the extreme. [See Chart 4.] Adding fees to the mix is crucial, because as the report does acknowledge, Wisconsin funds services more from taxes than fees, while other states use higher fees which evens out the overall amount residents pay.
The context of taxes on individuals versus taxes on business: The WPRI report stresses that Wisconsin ranks especially high on taxes on individual incomes and property. What it doesn’t acknowledge is that this is the result of several decades of deliberate shifting of tax burdens from businesses to individuals.

For the property tax, a series of exemptions for business property over the last 30 years has significantly reduced business property tax costs. This, in turn, has increased the taxes paid by home owners, from below 50% of total property taxes in 1970 to nearly 70% today.\(^{17}\) [See Chart 5]

**Chart 5: Home owners pay a much larger share of property taxes than 30 years ago**

As property taxes on manufacturers and farmers have dropped, home owners have picked up the burden

![Chart 5: Home owners pay a much larger share of property taxes than 30 years ago](image)

For the income tax, the tax on business income has dropped significantly as a contributor to state revenues, partly because of numerous tax loopholes. The result is a higher tax burden on individuals and families.\(^{18}\) [See Chart 6]

**Chart 6: Corporations are paying a smaller share of total income taxes**

Personal income taxes pick up the burden as the corporate tax share falls

![Chart 6: Corporations are paying a smaller share of total income taxes](image)

Institute for Wisconsin’s Future
The business community is well aware that corporate taxes are low. That’s why Forward Wisconsin, the state’s business-to-business recruitment agency, brags on its web site that “Wisconsin ranks fourth lowest in the nation in business taxes as a percent of all state and local taxes. The state's business-friendly attitude is reflected in positive business tax changes that have been made in every biennial legislative session since the early 1970s.”

The WPRI report touches briefly on the state’s low business taxes, but goes on to diminish its significance: “From an economic competitiveness point of view, Wisconsin ranks farthest above the national average on the two revenue sources that are most noticeable to people, and that are most easily comparable to other states — the individual income and property taxes.”

Wisconsin business has lobbied hard and successfully to reduce their taxes, as Forward Wisconsin notes. The obvious result: the tax burden is shifted increasingly onto individuals. Ironically, however, the report then claims that high taxes on individuals are anti-business!

- **The historical context of income tax rates:** While the report says Wisconsin’s income tax is too high, it ignores the fact that the current top rate — 6.75% — is the lowest it has been in 73 years. [See Chart 7]

---

**Chart 7: Wisconsin’s top income tax rate is the lowest in 73 years**

In fact, recent state budget crises were immediately preceded by — and caused by — the largest cuts in state tax history. According to the state’s Legislative Fiscal Bureau, the
income tax cuts of 1999, along with other tax changes in the late 1990s, reduced tax collections by over $2 billion in subsequent two-year budget cycles. That amount, together with the ill-advised $688 million sales tax rebate of 1999, would almost entirely have covered the subsequent deficit.

- **The context of consistency toward “average” as the goal:** The report is adamant that Wisconsin taxes and spending be brought down to the national (or regional) average. But, the report is inconsistent in defining average as an optimal level in other fiscal areas.

  Taxes on businesses are below the national average, but the report does not recommend raising the corporate income tax or business property taxes to reach the US average. The sales tax produces revenue below the national average, yet the report does not recommend raising it to reach the US average. Tuition at the University of Wisconsin is below that of peer schools, but it does not recommend raising tuition. If average is the goal, then consistency would require a call for increases in sales tax, business taxes, college tuitions, vehicle registration fees, highway tolls and other charges where Wisconsin is below average.

---

**2 | The impact of spending caps on the quality of public services**

**WPRI’S CLAIM:**  *Revenue and spending caps do not hurt public services*

The report says: “If comprehensive spending limits based on personal income growth were in place, government services would still be adequately funded based on comparison with national and regional averages. If comprehensive spending limits tied to personal income growth had been adopted in this state in 1986, by 2002 Wisconsin’s state and local spending would have been roughly $2.58 billion less than it actually was.”

The report says repeatedly that such a cut in spending would not be a public disservice. Even with those cuts, “government services would still be adequately funded;” “would not result in massive dislocations of government services;” “would have allowed Wisconsin to maintain vital government services;” “would not devastate government services;” and would allow “the state to provide the services that people want.”

**COUNTERPOINT:**  *Spending caps in 2002 would have devastated key services*

The WPRI report fails to define how a multi-billion dollar reduction in 2002 would have been implemented. But it is possible to estimate the impact. Suppose spending in FY2002 had been reduced by $2.58 billion, out of the $34.0 billion spent that year by Wisconsin state and
local governments, with cuts proportional throughout all areas of government (except interest on debt). The results (see also Table 2):25

- **The total reduction for schools and libraries would have been $1.01 billion.** That is the equivalent of one entire year’s budget for Milwaukee Public Schools. If staff had to be cut proportionate to the budget reduction, the state’s public schools would have had 5,000 fewer teachers that year (plus other cuts in auxiliary staff, plus staff at the University of Wisconsin and Wisconsin Technical College Systems).

- **Similar issues can be raised with other areas that would be cut under WPRI’s preferred scenario.** Spending cuts in the amount championed would have meant a $246 million reduction in spending on public safety in FY2002, including fire and police. This would have meant 2,000 fewer police and firefighters in 2002.

- **WPRI’s scenario would cut $616 million from state and local social services budgets, including programs for health, hospitals, public welfare and veterans.**

- **Programs affecting the environment and housing — including parks and sewerage — would be cut $213 million.** Highways and transportation would be cut $237 million. And a variety of other state and local programs would be cut $255 million.

### Table 2: The impact of WPRI’s reduced budget on state and local spending

*Cuts are based on the report’s preference that the FY02 budget would be $2.58 billion less. Cuts taken proportionately from all areas except debt service.*

<table>
<thead>
<tr>
<th>Category of government service</th>
<th>Cuts in a WPRI budget (FY2002)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education (UW, VTAE, K-12, libraries)</td>
<td>$1,013 million cut</td>
</tr>
<tr>
<td>Public safety (police, fire, corrections)</td>
<td>$246 million cut</td>
</tr>
<tr>
<td>Social services (health, veterans, hospitals, welfare)</td>
<td>$616 million cut</td>
</tr>
<tr>
<td>Highways and transportation</td>
<td>$237 million cut</td>
</tr>
<tr>
<td>Environment and housing (parks, sewerage, housing, natural resources)</td>
<td>$213 million cut</td>
</tr>
<tr>
<td>Other state and local functions</td>
<td>$255 million cut</td>
</tr>
</tbody>
</table>

*Based on report’s preference to have cut $2.58 billion from FY02 budget. Cuts taken proportionately from all areas of state and local spending, except debt service.*

Only by avoiding an empirical examination of his proposal, could the author so easily claim that despite the cuts, “government services would still be adequately funded.” As *Milwaukee Journal Sentinel* editorial writer and columnist Greg Stanford wrote in his excellent critique of the WPRI report, “Advocates of caps must stop pretending they won’t hurt services. They will.”26
COUNTERPOINT: Spending caps in K-12 education caused a statewide fiscal crisis in schools

The report offers only two items to support its contention that government budgets could be slashed with minimal impact on public services. Both relate to K-12 public education and the impact of a decade’s worth of revenue caps:

- In his foreword, WPRI’s Miller cites results from the ACT college-admission tests, and claims that despite school revenue limits, “the quality of educational achievement in Wisconsin has not changed. In the last ACT report we are still number one in the country. Clearly, spending can be curtailed without cutting necessary services.”

- Later in the report, Chandler claims: “In the K-12 area, even with limits in place, as of 2001 Wisconsin ranked 12th nationwide for per pupil expenditures, and Wisconsin students had excellent test results compared with students in other states.”

These are extremely misleading statements. Revenue limits have produced financial crisis in Wisconsin’s K-12 school system, as well as significant cutbacks in teaching staff and educational options.

For example, Wisconsin ranks 50th (and worst) in the disparity between white and black 4th and 8th graders on the National Assessment of Educational Progress reading and mathematics tests. And while the graduation rate for white students in Wisconsin ranked 5th in the nation, for Latino students it was 12th and for black students 33rd.

Even the oft-cited ACT results are not as favorable as depicted in the report. Wisconsin is tied for first place among the 24 states in which a majority of high school graduates took the test. But among all 50 states, Wisconsin is tied for 9th.

As a result of caps on public school spending, nearly every district in Wisconsin goes through annual budget cuts because the allowable spending increases aren’t enough even to cover the cost of continuing existing programming. In Milwaukee, where the African-American graduation rates are among the worst in the nation, annual budget shortfalls of more than $30 million are typical. Over 300 teachers were laid off for the current school year. Other districts around the state have seen proportional cutbacks. In rural Butternut, bankruptcy this year was staved off only by a surprise million-dollar gift from a graduate. Onalaska, like many others, both raised property tax rates and cut staff.

COUNTERPOINT: Revenue caps in other states are eating away at stable public infrastructure

The report notes that a variety of states have used differing methods of limiting government spending. Colorado’s version has attracted considerable attention because it was the original model for the Wisconsin legislative proposal. The Wisconsin proposal, the 2003 Assembly
Joint Resolution 55, is often referred to as the TABOR bill, after similarly-named Colorado legislation. The Colorado model is very instructive because the caps have been in place for over a decade, so the impact is visible.

Colorado’s version of TABOR, implemented in 1992, set constitutional limits on state and local revenue based on the inflation index and population growth. Contrary to all promises of fiscal paradise, post-TABOR Colorado is in dire straits on a number of levels:

- Colorado’s general fund revenues fell 17% from 2001 to 2003, compared to the national average of about 4%, due to the manner in which TABOR restricts revenue increases. By 2003, Colorado reported the nation’s second largest budget shortfall relative to its budget.34
- By 2000, Colorado had fallen to 50th in K-12 spending per pupil in relation to state income.35
- Colorado ranks 47th in state tax support for higher education.36
- Since June 2002, state funding for libraries has been cut by 79% resulting in decreased access to information.37
- TABOR has complicated Colorado’s fiscal life so much that some of its original supporters have soured on it. “In hindsight, I wouldn’t vote for it again,” said Republican State Senator Ron Teck.38
- Among the leading current proponents of a TABOR rewrite are the Denver Metro Chamber of Commerce and the Colorado Forum, an organization of prominent state CEOs. One of the directors of the forum complained this spring that if TABOR remains on the books as is, the state would be stuck not only with second-class universities but also with obsolete and dangerous highways.39 An editorial in the Colorado Springs Business Journal said, “It doesn’t take an advanced degree in economics or mathematics to see the train wreck that is certainly looming.”40

3 The relationship between revenue caps and economic development

WPRI’S CLAIM: Spending caps are essential for economic growth

The report claims that limits on state and local government spending would not only lower tax burdens but are also essential to “help the state become more competitive economically.”41 The claim is based on the idea that people and businesses won’t move to Wisconsin when they could easily choose someplace with lower taxes.
COUNTERPOINT: There are more effective ways to grow the Wisconsin economy

Economic development, taxes, and government spending are part of a complex system of economic activity. No single-minded approach will succeed in stimulating economic growth.

The report agrees, saying that “spending limits are not the only tool that should be used to improve the state’s fiscal situation.” But the report doesn’t support those words. It talks exclusively about managing spending: a state reserve fund (which makes sense), “and measures designed to discourage unfunded future spending commitments.” The intense focus by the report on limiting spending leads to a misleading view of what strategies are important for fostering economic growth in Wisconsin.

Raise incomes rather than cut spending

The report points out that Wisconsin’s ranking among states is the combination of both above-average spending and below-average income. Per-person income in Wisconsin has been below the national average for several decades at least, and was 2.3% below in 2003. To reduce the ratio of spending to income, the report offers only one solution: cut spending. It ignores the obvious alternative solution: increase income.

Raising the income of Wisconsin workers and business owners is a win-win strategy for the state. It protects public services and helps families toward economic security.

Policies aimed at increasing wage levels are very different than those aimed at reducing government spending. A clear difference can be seen by looking at the role of education. The WPRI report puts the focus on reducing spending, which requires cuts in state and local funding for public schools. Yet, there is abundant evidence that higher wage levels are strongly correlated with educational success. Only the most educated Wisconsin workers have posted significant wage gains in the last quarter-century.

Wages of Wisconsin men with college degrees increased by almost 24% from 1979–2003. College-educated women posted a 40% increase. By contrast, the vast majority of Wisconsin men without four-year college degrees saw significant wage declines, and the gains of non-college-educated women were just a fraction of the gains for four-year degree holders.

And yet, Wisconsin lags in terms of the proportion of adults with college degrees. Only 24% of Wisconsin adults 25-and-over are college graduates, which ranks the state 32nd in the country. The high-school graduation rate ranks only a bit better, with 89% of adults as graduates ranking 16th. Improving the state’s educational system and moving more people through college is critical for improving the state’s economic climate.

Taxes are not the key factor in business location decision-making

It is well-established by researchers that state and local taxes play a relatively small part in business location decision-making. As Andrew Reschovsky, of the University of Wisconsin-
Madison, noted in a recent paper: “There is ample evidence from a great number of studies that taxes, by themselves, are not a very important factor in the locational decisions of businesses.”

There are many ways to help develop Wisconsin enterprise that can have a more significant, long-lasting impact than reducing taxes. For example, a number of studies have cited the significant economic development benefits of increased investment in early childhood education. And while a broad discussion of economic development strategies is beyond the scope of this report, an excellent source of analysis is the Center on Wisconsin Strategies (COWS), at the University of Wisconsin-Madison. (www.cows.org) COWS recommendations include smart investments in manufacturing; targeted investment in training current workers; raising the minimum wage; and focusing on regions of high poverty, including Milwaukee, rural Wisconsin, and American Indian communities.
Conclusion

The state faces a highly contentious process to determine how much money should be raised to operate the public sector, where the money should be spent, and how each sector of the community should share in these costs. The policies adopted will set the parameters for future development in all aspects of the community — education, health care, public safety, sanitation, corrections, consumer protection, environmental oversight, and hundreds of other services that families and communities count on every day. Given the magnitude of the task and the significance of its effect on Wisconsin families, it is crucial that the public have accurate information to work with.

WPRI does a serious disservice to concerned citizens when it produces reports that airbrush information to suit one political agenda. It is imperative that the public have access to real facts in their full context in order to make informed decisions. It is critical that people are knowledgeable about the implications of proposed policies. The WPRI report has exaggerated the level of spending and taxes in Wisconsin, minimized the potentially destructive effects of artificial revenue and spending limits and ignored a number of well-researched alternatives for strengthening the Wisconsin economy. The report does not help to build the knowledge base required for sound public policy. The citizens of Wisconsin deserve better.
Institute for Wisconsin's Future

EXPOSING THE ‘TAX HELL’ HOAX


2 This phrase is from the WPRI report, the introductory “Report from the president” by WPRI President James H. Miller. The use of the phrase “tax hell” to describe a high-tax state goes back nationally at least into the early 1990s. The earliest Google reference is in a 1992 report for the Cato Institute by Stephen Moore. The earliest Google reference to Wisconsin is a 2000 pre-election comment on Public Broadcasting System’s NewsHour show, where University of Wisconsin Professor Susan Paddock said that “Wisconsin has earned the unhappy reputation of being a ‘tax hell.’” The phrase became common enough that Milwaukee Magazine made “tax hell” the centerpiece of its April 2003 cover. And it is still used frequently by Republican politicians and other conservatives. For example, Assembly Speaker John Gard (R-Peshtigo) said, in an Oct. 29, 2004 column in the Green Bay Press-Gazette, that he wants to “once and for all change our image as a tax hell in Wisconsin.”

3 WPRI report, Report from the president.

4 WPRI report, p. 15.

5 WPRI report, p. 2.

6 WPRI report, p. 1.

7 This 7.7% figure is so central to the WPRI report that it is the first number cited in the President’s introductory Report, the first number cited in the Executive Summary, and the first number cited in the body of the report. WPRI’s data come from U.S. Census Bureau tables on “State and Local Government Finance” (www.census.gov/govs/www/estimate.html) and from U.S. Bureau of Economic Analysis (BEA) tables on personal income (www.bea.gov/bea/regional/statelocal.htm). Those data are also the basis for this report.

8 WPRI report, p. 3

9 Our analysis of the Census Bureau and Bureau of Economic Analysis data.

10 WPRI report, p. 7

11 Census Bureau and Bureau of Economic Analysis.


13 WPRI report, p. 15

14 Census Bureau and Bureau of Economic Analysis.


16 WPRI report, p. 9


20 WPRI report, p. 9.
Institute for Wisconsin’s Future


