Anti-Tax Slogans Just Don't Fit

By: Joel Rogers

From: *Madison Capital Times*

Date: 4/1/2002

So let's wind up, for now, our series on the state's budget mess. What I think we've established so far is that debate around that deficit is grossly misleading on the facts, unfair in its proposed solution to the deficit, and mistaken in economic theory.

On this last point, the anti-tax mania that comprises almost all that the governor and most Republicans (and not a few Democrats) have to say about the appropriate role of state government in the economy is, in a word, stupid. These folks may claim to be making the "hard choices" and showing "leadership" on our future, but in fact they are doing neither. They are acting as happy slaves to the defunct notion that taxes per se are bad for economic growth, which simply isn't true on the facts. If it were, Minnesota and Wisconsin would have miserable standards of living, and Mississippi and Arkansas would be national leaders. An appropriately designed tax system is essential to paving the "high road" strategy of economic growth (high productivity, high wages, high profits, low waste) that Wisconsin should be pursuing. And that strategy should draw support not only from the working class but from the best and the brightest of the business class as well. They should support a tax system adequate to our needs, where those needs include not just caring for the needy and infirm, or providing essential police and medical services to all citizens, but building a social infrastructure to support a high road economy. That means good education and training systems, good transportation (including mass transportation) and communication systems, and good services to modernize existing business and nourish the seeds of new ones. Getting such things costs money, but experience shows that this sort of social "spending" is really investment, with eventual payback far exceeding original cost.

But enough on generalities. How about fixing the current mess? What would I do? I would make two basic moves for starters, and a third to lay the foundation for more thorough-going reform.

Move No. 1 would be to bring Wisconsin treatment of different sorts of income into line with federal treatment of the same. It generally doesn't make sense for states to have more generous tax provisions than those applied by the federal government. It complicates things for taxpayers, who find themselves subject to different sets of rules. And it gives feds tax money that could have been kept in state, since state income taxes are deductible from federal ones. For these reasons, Wisconsin ought to join other states and bring itself in line with federal guidelines on the treatment of capital gains (a real no-brainer, since as dubious as the effect such taxes have on investment behavior is generally, they certainly don't affect in-state investment), unemployment insurance benefits and the treatment of Social Security income. Together, this would bring us about $250 million annually.

Move No. 2 would be to expand the base of our current sales tax. Many categories of service activity in Wisconsin are now exempted from the tax for no economic reason at all, but merely by result of the political power of their providers. The exemptions on pet training, dues to fraternal organizations, beauticians and barbers, live bands and orchestras, and service charges on ATMs and other bank services (many of which never should be levied in the first place) all come to mind. These exemptions are quite different in kind from exemptions on business purchase of legal or accounting services, and should be eliminated. There's really no economic logic to them at all.

On those more traditional business services themselves, however, we should begin to wake up to the fact that this is, after all, a service economy. Continuing to draw artificial distinctions between business services and physical inputs is just silly, and should also be revisited. Simply eliminating the sales tax exemptions for legal services would bring in $80 million annually, for accounting $50 million, for architectural and engineering services $50 million, for other business services (advertising, collective services, private cops, temp agencies, PR, etc.) a whopping $340 million. Add all this together and it's an additional $520 million in revenue.

Then there are excise taxes. Instead of raiding the tobacco money, for example, we could levy another $1 a pack on cigarettes. That alone would generate $350 million annually, bringing our total sales and excise tax increase to $870 million, and our total, between this and the alignment with federal tax rules, to $1.12 billion, or $2.25 billion biennially, which would allow us to retire our structural deficit comfortably without cutting any services at all. Cool, huh?

* Which brings us to Move No. 3: Commission a comprehensive tax and other revenue study of ourselves. It's been a quarter century now since Wisconsin did this, with good results then in informing later policy. It's time we did that again. And while it's a costly sort of study to do -- probably $1 million in staffing -- it can save us untold billions in bad policy down the road. Using staff from the Department of Revenue, university experts and other obvious sources, and under the mandate of a bipartisan blue-ribbon commission, the study I have in mind (with due date of, say, next January) should tell us: what the exemptions and hidden subsidies are, who's paying what in taxes, what other states are taxing that we are not, how we stand comparatively, and how our position has changed over the last 25 years.

In short, the Truth in Taxes -- a shared and accepted factual platform, finally, for the real debate we should be having: What is the best tax and revenue system for Wisconsin in the 21st century? In that debate, which I'd like to see begin next legislative session, there should be no holds barred. We should assume a clean slate and aim for the best.

Joel Rogers is director of the Center on Wisconsin Strategy at the University of Wisconsin. This is the 8th and last (for now!) of a series of articles on our current budget deficit.
