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## ***Budget Shortfall Easy to Solve***

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Who can ever forget Cuba Gooding's performance in "Jerry Maguire" - another Hollywood tale of true love triumphing over petty ambition, this one set in the wacky world of a professional sports agency? What at first seemed to be another Cruise-control vehicle for its Scientologist star, "Maguire" is noted now for the boost it gave Cruise's supporting cast - Gooding, who gained an Oscar for his role as gifted running back Ron Kidwell, whose career clock was ticking loudly in his head, and our inimitable ingune of steel, Renee Zellweger, who played Cruise's long-suffering girlfriend/wife and hasn't looked back since.

Along with their performances, "Maguire" is remembered for the line: "Show me the money!" which brings me back to the state budget.

As everyone knows, we're close to \$1 billion short for the next biennium. Since Wisconsin is required by state law to balance its budgets, this means we've got to come up with some mix of cuts or new revenues to bring that number to zero. According to the governor, this will require taking our medicine in service cuts, made worse in many instances by additional tax breaks he proposes for business.

Is this really true, or just another attempted application of the old political saw, "He who defines the problem gets to define the solution"? Well, it's not true, so you draw your own conclusion.

What government does with its money is the very stuff of politics, and cuts in existing programs, no less than the introduction of new ones, is a perfectly legitimate topic of discussion. But in truth, we don't even need to have that discussion to solve the current budget problem. Plenty of money can be easily found to cover our current deficit. Enough, in fact, so we can also steward our future far more responsibly than the Thompson/McCallum administration - which squirreled away all of \$13 in our "rainy day fund" during its first 14 years in office - ever did.

Here are two basic ways.

One is to remove costly subsidies of things we don't need or want, and tax provisions that shift costs onto people to pay for problems they didn't produce in the first place. By common estimate, there are about \$1 billion of such misplaced subsidies or revenue-costing "tax expenditures" in our last several budgets, and certainly there are some in this one. Take, as just one example, the case of the environment. This was highlighted in a recent COWS report, "Stumps to Dumps: Wisconsin's Anti-Environmental Subsidies," which chronicles dozens of such costly provisions in this area alone. Our tipping fee structure, for example, pushes the cost of industry waste disposal onto residents, rather than the industries producing that waste in the first place. Our forest tax laws subsidize the destruction of trees through special property tax reductions for lumber interests. Tax incremental financing provisions encourage suburban sprawl, with costs paid for by those left behind. A thorough public review of all these sorts of questionable subsidies would be a real eye-opener. The repeal of all of them would solve our budget problems overnight, and realign tax and regulatory incentives in the state in the right direction. So, you would get a double bang for your newly unspent buck.

The other general way to fiscal health is to update and reform our tax system, paying less attention to such specific giveaways and more to sensible tax reform - based on the guideposts of efficiency, simplicity and fairness - all of which can foster progress in Wisconsin while generating more revenue.

For starters, 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 usually just gives the feds tax money that could have been kept in-state, since state income taxes are deductible from federal ones. For these reasons, among others, Wisconsin ought, like most other states, to bring itself in line with federal guidelines on the treatment of capital gains (a real no-brainer, since as dubious as the effect may be of such taxes on investment behavior in general, they certainly don't affect in-state investment), unemployment insurance benefits and the treatment of Social Security income.

Income tax brackets should also be adjusted for inflation and general earnings growth. Wisconsin recently enacted inflation adjustment, but only after a long period of bracket creep and after a last-minute introduction of a top rate reduction (exactly contrary to what was needed). Both problems can be dealt with by repealing the regressive reform, and then adding a couple of additional brackets to distinguish among the growing population of those now classed together as "well off." Along with bringing in some money, this would be fairer to many within that class, as well as the rest of us, and would bring Wisconsin income tax rates more in line with those of neighboring states. The latter should also be done with corporate tax rates, which have slid over the past couple of decades.

Sales taxes should be revisited on efficiency and equity grounds as well as revenue-raising ones. Many categories of service activity in Wisconsin are now exempted from tax for no economic reason at all, but merely as a result of the political power of their providers. The exemptions on pet training, dues to fraternal organizations, beauticians and barbers, 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 purchases of legal or accounting services, and should be eliminated. And, with that broader base, sales taxes should be marginally increased.

Finally, Wisconsin might consider some changes in its excise taxes on different items and the cost of its user fees. Most of the attention here has recently focused on smokers and college students. Both might be left alone for a while, and instead taxes might be increased on two of our favored liquids: beer (now lower than in all but two other states) and gasoline.

Under reasonable assumptions, small changes in all these directions - really small, like a percentage point or less here or there in most cases - would generate in excess of \$950 million in annual additional revenue in Wisconsin, while making our tax system more efficient, simpler and fairer. This is about twice what we need to eliminate the current deficit, and would generate a vast surplus that could be put into things like increased student aid, environmentally healthy transportation infrastructure, better health care coverage for the poor and that famous rainy day fund.

Or, of course, we could do both things - cut stupid subsidies and update the tax system - in which case we'd be really rolling in money, enough to make Ron Kidwell happy.

Joel Rogers teaches at the University of Wisconsin-Madison and is founder and director of the Center on Wisconsin Strategy (COWS), which administers the Sustaining Wisconsin campaign. This is another in a weekly series of Capital Times columns he's writing on issues in the campaign. Thanks to Andy Reschovsky for most of the alternative general tax plan.

For more information, see [www.cows.org](http://www.cows.org) and [www.sustainingwisconsin.org](http://www.sustainingwisconsin.org).

Joel Rogers is director of COWS, the Center on Wisconsin Strategy, at the UW-Madison. On Jan. 29, COWS debuted "Sustaining Wisconsin," a statewide dialogue about the future of Wisconsin. The themes expressed in this view of the state of the state will carry through the next 18 months as COWS uses Sustaining Wisconsin to put the Wisconsin Idea into action.

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