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Deficit Blues II: The Myths

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Consider three myths promoted in our budget discussion. Like most myths, these survive because they bring a certain comfort, at least in some quarters.

But make no mistake that they are myths - that is, untrue - and are dangerous because they obscure things that demand attention.

Myth No. 1 is that Wisconsin has an unusual burden of taxes, which puts us out of line with other states. In fact, Wisconsin is about average in its state tax burden, at least for a state providing the sorts of services we take for granted here. According to the latest figures from the Census Bureau, we rank 17th among the 50 states in total state taxes per person, and 17th as well in total state taxes per dollar of personal income. Within that general figure, our business taxes - and it is business on whose behalf the "big tax state" charge is commonly leveled - are actually below average. We rank 25th among the states in corporate income tax per person, and 28th in corporate income tax per dollar of personal income.

Along with low effective taxes, our businesses commonly pay lower user fees than businesses pay in other states, which tend to rely on this revenue device more heavily than does Wisconsin, and this further lowers the effective tax burden on Wisconsin businesses.

Now let's have fun misleading with numbers, shall we? If you then add local taxes into this quite ordinary state mix, and define local taxes narrowly, our national rank in state tax burden jumps to third in the nation in taxes per dollar of personal income, and sixth per person.

The first is the number the governor always cites, and it provides the basis of his administration's top priorities: to get Wisconsin out of the top five tax states, and then out of the top 10. But this ranking is misleading as an "overall" number, because it separates state and local revenue from other sources, such as the user fees.

If you include all these, which is really the best way to assess the government burden on individuals and business, Wisconsin drops to 11th on both a per person and per dollar basis. In this more accurate accounting picture, the governor's goals for his administration have already been achieved. Maybe he should declare victory and call it a day.

Another myth is that our budget woes owe mostly to the national recession, or the blow to the economy produced by the horrors of Sept. 11. Both are beside the point. What we are dealing with here is a structural deficit problem - meaning a deficit that would exist even in good economic times.

Choices made years ago by the Thompson-McCallum team led to this structural deficit. During its long reign, they pushed through a series of pro-business tax reforms. These had the intended effect of rewarding their friends and making our tax system less progressive, but they also narrowed the state tax base.

The team simultaneously increased essentially non-discretionary state spending - chiefly through adoption of the school aid formula, a prisons-first approach to crime and drug use, and a massive highway program. The combination of tax breaks and effectively permanent spending increases guaranteed the eventual arrival of the structural deficit we now face.

As the 1990s wore on, the deficit's appearance was delayed by exceptional employment growth and an unexpected drop in Medicaid costs. Now the exceptions have run out, and the deficit is finally kicking in.

It didn't help that, in addition to manufacturing this deficit, the team also declined to save anything during the go-go years. They never missed an opportunity to dollop out special tax refunds, as they did last year with $750 million it would be nice to have right now. And by the time Tommy left office, the state's "rainy day" fund stood at all of $47 - as compared to the hundreds of millions squirreled away by neighboring states. Our present mess traces to fundamental tax and policy choices we have made - choices that bear reconsideration.

A third myth is that the end of shared revenue won't affect the quality of essential municipal services such as police and fire. This assertion rests on another one - that cities have been on a spending spree in recent decades, and now have budgets so full of fat that trimming back is well within their means.

Both claims are nonsense, as McCallum well knows. On the spending side, shared revenue declined in real (inflation-corrected) terms throughout the last decade, and has been literally frozen in nominal dollars since 1995, when the school aid formula was first agreed to. Even if they had wanted to, municipalities couldn't have used it to drive up spending since then, since it was steadily going down.

On the revenue side, meanwhile, our poorer communities really do need shared revenue. Take Milwaukee, with the biggest municipal budget in the state. Shared revenue accounts for close to half its operating budget. You take that away and you're not putting it on a diet. You're cutting bone. Pretending otherwise is not just inaccurate, but insulting.

What's at stake here is what redistribution we are prepared to support as a state. Our better-off suburbs do not need shared revenue; our poorer communities do. The program has long stood for the proposition that, whatever your local community's wealth, there are certain basics we as a state are going to make sure you can afford. If the governor wants to break that compact, that's his choice.

Nothing I've said here is controversial, or at least nothing should be. The facts and historical record speak for themselves. Why aren't the issues of how we got into this mess in the first place, the choices we face in finding new revenue, and the distributional concerns raised by McCallum's solution at the center of our public discussion, rather than shunted to the side?

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