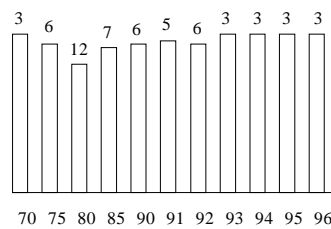


Ensuring Growth: Perspectives on Fiscal Readiness



Wisconsin Tax Rankings

University of Wisconsin Economic Summit
November 29-December 1, 2000



Todd Andrew Berry
President, Wisconsin Taxpayers Alliance

Ensuring Growth: Perspectives on Fiscal Readiness

Todd Andrew Berry, President, Wisconsin Taxpayers Alliance

Summary

This paper reviews the state's fiscal health over recent decades and assesses its fiscal readiness on several key measures to meet the challenges of the century to come.

With per capita income generally below national averages and state-local taxes consistently among the highest in the country, Wisconsin has long debated whether it can afford the taxes it levies and the services it provides with the income it generates. With taxes in recent years growing faster than incomes, there is little sign this "affordability gap" is closing.

The problem is complicated by an inability to hold public spending increases to income growth. The challenge has been further compounded in recent years as the state has committed to future expenditures based on tax windfalls and anticipated, but uncollected, revenues.

In looking ahead, it can be argued that Wisconsin faces both human and financial capital problems. High income and property taxes do not help stem out-migration of skilled young people, nor do they encourage in-migration of experienced workers. Moreover, Wisconsin lacks its share of high-income, high-asset individuals that could provide the capital to underwrite "new economy" ventures.

Ensuring Growth: Perspectives on Fiscal Readiness

Todd Andrew Berry, President, Wisconsin Taxpayers Alliance

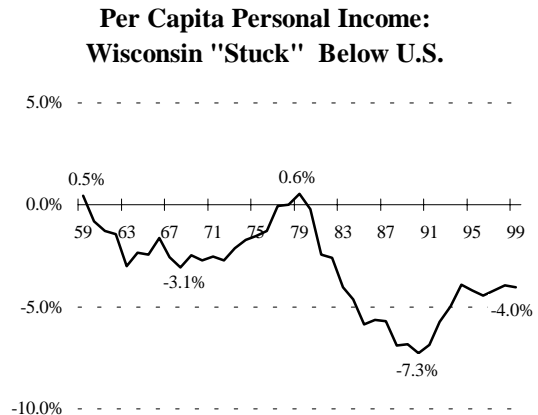
As a new decade begins, and leaders from across the state gather to chart a new economic course for Wisconsin, it is constructive to assess the state's fiscal readiness, particularly from a tax perspective, to meet the economic challenges of the next century.

This paper, essentially a fiscal report card, examines readiness from several perspectives. The initial sections provide a retrospective. The income side of the ledger is reviewed to gauge the current ability of citizens to pay for government. From the cost side, the state-local tax burden is examined over time and compared to other states. Income and taxes are then linked, as the important issue of government affordability is addressed. Readiness and Affordability are also assessed from the perspective of public spending and fiscal practices. The final sections of the paper turn to the future and look at two of the linchpins in any state's ability to compete in a 21st century information economy: the ability to attract capital, human and financial.

I. State Income

Tracking per capita personal income over time provides a succinct history of the modern Wisconsin economy, and a simple tool for measuring the state's current economic strength relative to the nation. Personal income is a broad measure that goes beyond wages and salaries to include farm and rental income, dividends, interest and government payments, among others.

Over the past four decades, the ups and downs of Wisconsin income suggest the state has gone through three economic "phases" (see graph). During the sixties and seventies, Wisconsin was a manufacturing-based state thriving in the late industrial era. State income per person never trailed the U.S. by more than about 3%.



% WI Below US

And as the table below shows, income growth generally matched or exceeded the U.S. In the last forty years, there were only two years when the state reached income parity with the nation, and both were during this period. The first was in 1959; the second was 1979, when personal income per capita was \$9,281, or 0.6% higher than the U.S. average (\$9,230).

The 1981-82 recession symbolizes the second phase, a painful transition from an era of goods to an era of services. The U.S., it can be argued, made this transition more gracefully than Wisconsin, as "high-tech" service jobs began to replace lost manufacturing employment. Throughout the eighties, state income per capita grew at a rate markedly slower than elsewhere. By 1990, it was 7.3% below the national average.

The nineties marked a third economic phase, the maturing of services and high technology. Income growth here surpassed the country between 1989 and 1994, in part because of the state's ability to tap its manufacturing and agricultural

Per Capita Income Growth, Annual Avgs., By Periods: 1959-99

	59-64	64-69	69-74	74-79	79-84	84-89	89-94	94-99
U.S.	3.9%	7.5%	8.3%	10.0%	8.4%	6.1%	4.0%	4.8%
Wisc.	3.3%	7.5%	8.4%	10.5%	7.3%	5.6%	4.6%	4.8%
Diff.	-0.6%	0.0%	0.2%	0.5%	-1.1%	-0.5%	0.6%	0.0%

strengths for export purposes. By 1999, Wisconsin trailed the U.S. by only 4.0% in income per person. However, despite growth in service jobs, Wisconsin continued to rely to an unusually high degree on manufacturing, while technology was more common on the coasts.

For those who would like Wisconsin to offer “high-quality, high-paying” jobs to young graduates and potential newcomers, several points deserve mention. First, income growth since 1994-95 has slowed to national rates, making income “catch-up” to the rest of the country less likely. And second, per capita income here remains below the national average, seemingly stuck at a new, lower relative equilibrium than that which prevailed during the sixties and seventies.

II. State and Local Taxes

As long as individuals and firms are seen as rational actors on the economic stage, there will be a role for taxes in discussing Wisconsin’s economic future. Academics and analysts quibble over the size of that role, but taxes, and the public expenditures they finance, can affect personal and business decisions about how and where to earn, invest and spend. And those decisions impact a state’s economic well-being.

Wisconsin has long been viewed as a high tax-high service state. For decades, total state and local taxes relative to income have been among the nation’s highest. The latest figures from the U.S. Census Bureau (1996) placed the state third in total state-local tax burden for every \$1,000 of personal income, 18.0% above the national average (table, right). The state has remained in the top ten in almost every year reported for three decades; in fact, the state was third in 1970 and third a quarter-century later.

State-Local Taxes: Wisc. vs. U.S.

(U.S. Census, FY 1996)

Revenue Item	Per Capita		Per \$1,000 Income		Rk.	+/- US
	U.S.	Wisc.	U.S.	Wisc.		
Own Revs.	\$3,724.05	\$3,970.55	\$162.01	\$179.65	9	10.9%
Taxes	2,597.36	2,946.79	112.99	133.33	3	18.0%
Income	553.53	804.44	24.08	36.40	6	51.1%
Sales	637.32	552.65	27.73	25.01	32	-9.8%
Property	789.49	1,053.97	34.35	47.69	7	38.8%
Corp. Inc.	120.66	120.33	5.25	5.44	15	3.7%
Chgs/Fees	686.81	666.36	29.88	30.15	32	0.9%

Historically, individual income (sixth highest and 51.1% above the U.S. average) and property taxes (seventh, +38.8%) have stood out, while sales taxes have been below average.

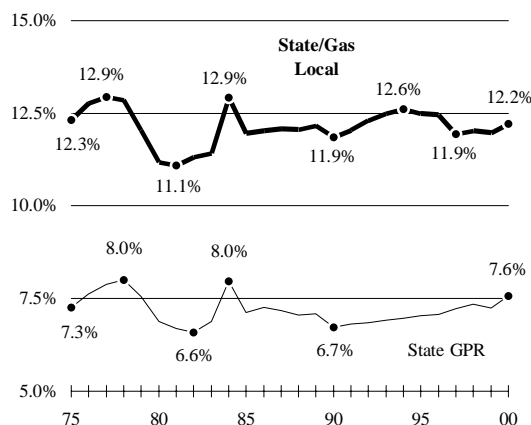
More recent information is consistent with these figures. The Washington-based Tax Foundation estimates total state-local tax burdens annually. For 2000, Wisconsin ranked fourth behind Maine, New York and Hawaii. Minnesota was 9th, Iowa 15th, Michigan 30th and Illinois 33rd. Wisconsin’s burden was 17.3% above the U.S. norm, a finding that nearly matches Census figures of several years prior.

The reason Wisconsin’s tax rankings have changed little in recent decades can be seen in reviewing state tax burdens. Taxes as a share of income have not varied greatly over the past twenty-five years. What volatility has occurred was due to the recession, but the general trend has been up.

Since 1975, state general purpose revenue (GPR) taxes, principally from income and sales, have ranged between 6.7% and 8.0% of personal income (light line, right). When local property taxes, county option

Taxes as Share of Personal Income, 1975-2000

State-Local and State GPR



sales taxes and state motor fuel taxes are added, over 90% of all state and local taxes are represented (above graph, heavy line). This figure has ranged from 11.1% to 12.9% of income over the past quarter century.

Although tax burdens have not varied greatly, the general trend has been upward. Several developments explain this trend, two of which have worked at cross-purposes. First, state taxes (GPR) as a share of personal income have climbed steadily since 1990, as the preceding graph suggests. In fact, save a recession-induced, 10% income tax surcharge in 1983-84, state taxes in 1999-2000 were at their highest level since the late seventies.

The prime engine of state tax growth has been the individual income tax. Between 1989-1990 and 1999-2000, personal income grew 72% while income tax collections jumped 127%. Part of this was due to increases in employment and “real” earnings; part of it was due to a soaring stock market; but a major contributing factor was statutory. Between 1988 and 1998, state income tax law went unchanged: Tax brackets and tax credits remained untouched; and, most significantly, the state’s standard deduction, which declines as income rises, was not kept current with inflation. Meanwhile, modest growth in incomes, even if only at the same rate as inflation (34%), meant that income taxes rose faster than incomes. The legislature addressed this problem by indexing the income tax for inflation beginning in 1999; indexing had been suspended in 1983 and repealed in 1987.

The surge in income taxes counteracted a \$1.2 billion state buy-down of school property taxes implemented in 1996. Combined with state-imposed controls on school revenues and staff compensation, the state’s so-called “two-thirds” school funding plan held growth in property tax levies to 52% for the entire decade. School levies in 2000 were actually below mid-decade levels.

Thus, state tax collections were allowed to grow to in order to fund state assumption of the lead role in funding local public schools. From 1993 through 1997, the governor and legislature actually approved modest state tax increases, most notably on cigarettes, while for three of those five years (1995-97), states elsewhere were cutting taxes. In 1998, Wisconsin enacted a modest income tax cut, but tax reductions, as a percent of collections, were greater nationwide. Only in 1999, to take effect in 2000 and 2001, did Wisconsin enact a tax cut, mainly on income, that was larger in percentage terms than approved by other states. Year-by-year state tax actions here and nationwide are summarized in the table to the right.

State Tax Actions: Wisconsin vs. U.S.

Year Enacted+	Wisconsin		U.S.	
	Chg. \$m	% of Taxes*	Chg. \$m	% of Taxes*
1993	\$30.1	0.4 %	\$4,134.3	1.3 %
1994	4.9	0.1	1799.7	0.5
1995	29.8	0.4	-3275	-0.9
1996	43.5	0.5	-4030.2	-1.1
1997	50.6	0.5	-2573.1	-0.6
1998	-123.5	-1.2	-7142	-1.6
1999	-433.7	-3.9	-7340.6	-1.7

Source: NCSL. Notes: Generally Affects FY Following;
* % of Tax Collections Year Prior

III. Affordability

Income and tax figures suggest a basic problem that has long faced Wisconsin. Currently, state per capita personal income is 4% below the U.S. average, a familiar position for most of the past four decades. Meanwhile, for various reasons, historical, cultural and political, the state-local tax burden is more than 17% above national norms.

This relationship is best summarized in work pioneered by the late-U.S. Advisory Commission on Intergovernmental Relations (ACIR) and updated by the Federal Reserve Bank of Boston for 1994 and 1996. Using Census Bureau data, ACIR compared state-local “tax effort” —“how hard” a state worked to tax itself—and “tax capacity,” the relative amount of resources at its disposal to generate revenue.

The results of the ACIR-Fed studies (graph right) confirm the disconnect between income and taxes in Wisconsin. In 1996, the gap between tax effort (117 vs. a national average of 100) and tax capacity (97) was twenty points. Although this was narrower than during the recessionary eighties, it was larger than what had prevailed during the prior decade.

There is little in subsequent income or tax figures to suggest any significant closing of the “affordability gap.” Personal income growth has slowed to national rates since 1995, and state taxes have accelerated.

Wisconsin’s dilemma is shown in the table (below). Since 1980, in all five-year periods, except 1985-90, state taxes have grown faster than personal income (periods marked). The same is true for state-gas-local taxes combined, with the exception of years since 1995. In that case, a slowdown in local property taxes was “bought” with accelerating state income tax collections.

To put the past twenty years in perspective, between 1980 and 2000, state population increased 13%, and consumer prices grew 129%. State taxes alone rose 267% and combined state-local taxes climbed 265%. Both increased faster than personal income (234%), despite the strongest real (inflation-adjusted) growth in personal income (16.3%) during the past five years that has been seen in a quarter century. The “affordability gap” between taxes and income in the Badger state widened, despite concern to the contrary.

IV. State Spending and Finance

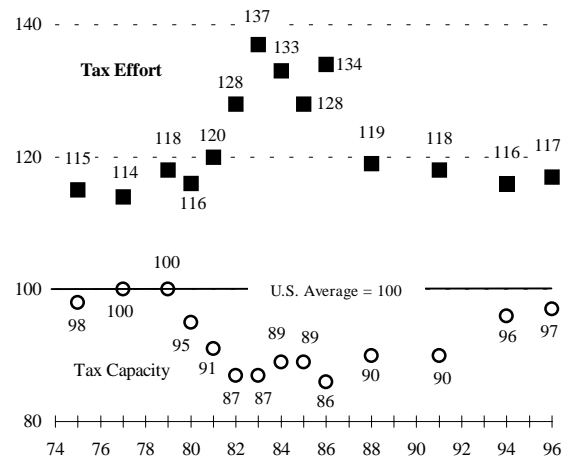
Taxes cannot be discussed without eventually touching on interstate competitiveness and public expenditures. In the aftermath of the 1981-82 recession, Governor Anthony S. Earl recognized this in appointing two commissions to examine these issues.

In November 1985, the first panel reported. The Strategic Development Commission found that “. . . by any objective measure, Wisconsin is a high spending state.” It wrote of “expensive government that is increasingly difficult to afford, given the recent economic downturn,” and it saw the need to develop “long-term spending targets that take into consideration the costs and benefits thereof, the state’s competitive position and the capacity of Wisconsin to support public expectations.”

A year later, the Governor’s Expenditure Commission offered some timeless observations:

First, “when government revenues increase . . . expenditures grow to meet the available resources. When revenues decline, constituent demands to maintain programs begun during more affluent times require tax increases. The budget is balanced, but at what size?”

Wisconsin's 'Tax Effort' Has Long Exceeded Its 'Tax Capacity'



**Growth in Income vs. Taxes
Actual and 'Real' Dollars**

Years	Pers. Income	State Taxes	St*. & Local
<i>Actual</i>			
75-80	69.7%	60.9%	54.0%
80-85	44.2%	49.2% ♦	54.2% ♦
85-90	34.6%	27.0%	33.4%
90-95	31.6%	37.7% ♦	38.7% ♦
95-00	30.7%	40.7% ♦	27.9%
<i>Inflation-Adjusted</i>			
75-80	15.3%	9.2%	4.6%
80-85	0.7%	4.3% ♦	7.7% ♦
85-90	12.8%	6.4%	11.8%
90-95	10.1%	15.2% ♦	16.0% ♦
95-00	16.3%	25.2% ♦	13.7%

Second, “the growing burden of supporting state and local government spending in Wisconsin creates disincentives to new business start-ups in the state, and existing businesses cite Wisconsin’s high personal taxes as a reason to locate elsewhere.”

And third, “. . . the revenue “roller coaster” in the past has resulted in a shortsighted approach to budgeting.”

The Expenditure Commission’s key recommendations were: that “Wisconsin target its state and local government expenditures to the U.S. average in expenditures per \$1,000 of personal income by 1992-93”; and that it “establish a counter-cyclical revenue stabilization fund to allow for long-term budget planning.”

How has Wisconsin done in heeding the sage advice from the Earl years? In 1985, the state did enact a budget stabilization or “rainy day” fund to remove excess tax collections from budget consideration in good times so that they might be available to avoid tax increases in more challenging times. However, despite better-than-expected revenue growth, the state has not made a deposit to the account.

State expenditures have not fared much better. The Expenditure Commission found that, in 1958-59, state-local spending as a share of income was average compared to the rest of the nation. By 1981-82, at the depths of a recession, with budgets under stress and income growth suppressed, Wisconsin was 19% above the U.S. average.

Growth in State GPR Spending, 1975-2000

Years	Actual	Inflat'n Adj.
75-80	50.6%	2.3%
80-85	40.0%	-2.2%
85-90	26.5%	6.0%
90-95	34.2%	12.3%
95-00	35.7%	20.7%

A history of state GPR spending changes in five-year increments (left) shows that, in actual dollar terms, some progress was made in restraining public expenditures in the late eighties. Indeed, at the beginning of the decade just concluded, with budget growth constrained and income growth returning, there was hope that the state could meet the Commission’s target by 1992-93. However, the rebound of the state in the nineties has proved the Earl commission correct: State tax collections accelerated; and state expenditures followed.

In 1995-96, state-local spending as a share of personal income was still 7.3% above the U.S. average (see table, below right). State assumption of the lead in funding local schools in 1996 and soaring prison costs through-out the decade led state spending to grow at even faster rates from 1995 on.

The revenue “roller coaster” continues. Since 1993, actual state revenues have exceeded estimates in most years, even after last-minute tax cuts. The cumulative excess of tax collections over initial estimates between 1993 and 2000 is about \$1 billion. As was seen, none of this was deposited in the budget stabilization fund, now fifteen years old; and, as the National Conference of State Legislatures reports (see table, “State Tax Actions”), little of it was used, until recently, to slow growth in state tax collections. On the other hand, in the three most recent five-year periods, inflation-adjusted state spending increased 6.0%, 12.3% and 20.7%, respectively (table, above left). State expenditures expanded to meet available revenues.

Expenditure Commission Target Missed

Public Spending: Wisconsin vs. U.S., 1995-96

	St. & Loc.	State	Local
	<i>Per \$1,000 Income</i>		
U.S.	\$195.04	\$82.79	\$112.50
Wisc.	209.24	78.58	130.66
% +/- U.S.	7.3%	-5.1%	16.1%
Rank	18	37	6
	<i>Per Capita</i>		
U.S.	\$4,483.33	\$1,901.12	\$2,586.10
Wisc.	4,624.49	1,736.65	2,887.84
% +/- U.S.	3.1%	-8.7%	11.7%

Even with strong revenue growth, however, state budgets have remained precariously balanced. Every biennial budget since 1993 has been kept in the black using carryover-revenue windfalls from the prior biennium, while containing a “structural deficit” in the second year. The practice has tended to worsen over time (see table). The second year of the 1999-2001 state budget calls for \$475 million more in spending than revenues. If the past seven years are predictive—and the economy continues to surprise—unplanned, excess revenue will fill this hole, and a new one will be “dug” for the second half of the 2001-03 biennium.

**Budget 'Holes' in
2nd Years (\$m)**

Biennial Budget	Rev-Exp. 2nd Yr.
1993-95	-\$140.0
1995-97	-346.0
1997-99	-235.0
1999-01	-475.0

Governor Earl’s Expenditure Commission proved to be remarkably prescient: In the nineties, as in the seventies and eighties, state government has absorbed currently available revenues; in fact, it has counted on future revenues to fill existing spending gaps. Program commitments have been expanded and future promises made, both assuming that continued economic growth will produce new windfalls and cover recurring deficits.

V. Looking Ahead: Taxes and Human Capital

Some economic observers argue that Wisconsin personal income continues to lag the country because the state missed its opportunity to take early advantage of emerging high technology when the nation began its transition from postwar manufacturing. They suggest the state is well-positioned to capitalize on the next revolution, biotechnology, because of university-based research prowess and existing business strengths in agriculture and life sciences.

Others offer words of caution. One concern is that the state is losing bright, college-educated graduates to other regions and ranks near or at the bottom among states in attracting well-trained workers from elsewhere. Many factors enter into keeping and attracting skilled workers. Nevertheless, a potential role for taxes cannot be ignored.

Consider the case of a recent college graduate contemplating a job and an eventual home purchase; the choice is Wisconsin and several other states. Although it may not occur to him or her, an out-of-state recruiter will be quick to remind the prospective employee that, historically, Wisconsin’s income taxes have been 50% above the U.S. average, and property taxes have exceeded averages by almost 40%.

Specific state income tax comparisons—these made by the Minnesota Department of Revenue based on 1994 gross incomes—are illustrative of the point a recruiter would make. A single filer with \$50,000 of income would have paid \$2,884 in Wisconsin, but \$561 (20%) less in California, \$1,470 (49%) less in Illinois and \$1,024 (36%) less in Michigan. Texas and Florida have no income tax for a savings of the full \$2,884 amount. Minnesota’s burden was about 1% less. Is there incentive value to an annual relocation bonus of between \$1,000 and \$3,000?

Basing a recruiting pitch solely on income taxes may be unfair, and admittedly state income tax laws have changed recently. However, the gap between Wisconsin and other likely competitor states remains when all state and local taxes are included. Based on Tax Foundation estimates of 2000 state-local tax burdens as a share of income, one finds Illinois is 21% lower; Michigan, 19% lower; Texas, 26% lower; Florida, 21% lower. Even California (13% lower) and Minnesota (10% lower) are currently relative bargains when it comes to taxes. If this comparison gives pause to the initially unaware graduate, it is more noticeable to the mid-career, home-owning professional who contemplates a move to Wisconsin.

Quality of life is often raised in Wisconsin's defense, but Minnesota and Michigan are, in many ways, similar. The allure of Austin or San Francisco, when combined with a 13% to 26% state-local tax advantage, also cannot be ignored. Rational behavior in making location decisions cannot be dismissed.

VI. Looking Ahead: Financial Capital

There is optimism that Wisconsin can reap a disproportionate share of the dividends to be generated by the nascent biotechnology industry. However, even if skilled, educated labor is available, the state still faces a challenge in turning pioneering laboratory work into successful for-profit ventures. Homegrown research spin-offs must have access to venture capital; and, if they are to remain homegrown, the capital must ideally come from within the region.

To date, the venture capital picture in Wisconsin has not been particularly bright. The state accounts for about 1.8% of gross domestic product and about 1.9% of the nation's population. Yet, according to the National Venture Capital Association, between 1989 and 1999, it captured only 0.5% of venture capital disbursements nationwide. This ranged from a low of 0.1% in 1996 to a high of 0.9% in 1999.

Partial figures for 2000 are both encouraging and discouraging:

- Total venture capital payouts to Wisconsin firms through September, 2000 were \$227.7 million, more than \$100m million ahead of all of last year (\$123.3 million).
- Much of that, \$149.1m, occurred in the third quarter (July-September). However, this still represented only 0.6% of national disbursements, a percentage that varies little from previous years.
- Compared to other states, Wisconsin's disbursements year-to-date were up 85%—more than Illinois (22.6%), and Michigan (2.7%), but less than Minnesota (119%). In size, Wisconsin's \$227.7 million still trailed Illinois (\$1,868.4 million), Minnesota (\$920.4 million) and Michigan (\$318.7 million).
- Also potentially troubling is the nature of disbursements. During the third quarter, Internet-related firms accounted for almost 71% of venture capital disbursements nationally. Wisconsin ranked 34th of 47 states receiving such payments and accounted for less than 0.1% of the U.S. total. Where the "action" currently is, Wisconsin isn't.

To what can be attributed Wisconsin's lack of venture capital? An easy explanation is "those that gets, gets." Home to Stanford, Berkeley, Harvard and MIT, California and Massachusetts have long been hot beds of high technology; the two account for over half of all venture capital disbursements in the most recent quarter. Add New York, Texas and Colorado, and five states account for two-thirds of the total. The figure tops 81% if the top ten states are listed, and none of these is in the Midwest.

The relative wealth and income of Wisconsinites also cannot be overlooked. One source of venture capital is people with high income, considerable personal assets or both. Wisconsin has a disproportionately small share of both.

Income. According to Internal Revenue Service (IRS) statistics for the 1998 tax year, 1.2% of Wisconsin federal income tax returns had adjusted gross income (AGI) of \$200,000 or more compared to 1.7% nationally. This percentage topped 2% in wealthy states, e.g., California (2.1%), Connecticut (3.3), Illinois (2.0%), Massachusetts (2.4%) and New York (2.2%). Only 16.5% of Wisconsin AGI is reported by those with incomes over \$200,000 vs. 22.0% nationally (see table following).

Wisconsin's Lack of High-Income Taxpayers

Calculations Based on 1998 IRS Figures

AGI (\$000)	Returns				Adj. Gross Income					
	Wisconsin		U.S.		Wisconsin			U.S.		
	(000)	Pct.	(000)	Pct.	\$ mill.	Pct.	\$/Return	\$ mill.	Pct.	\$/Return
> 100	132.4	5.3%	8,298.2	6.6%	\$30,153.4	29.2%	\$227,786.3	\$2,000,498.8	37.2%	\$241,075.0
> 200	31.2	1.2% ←	2,074.0	1.7% ←	\$17,024.9	16.5%	\$545,723.1	\$1,183,130.6	22.0%	\$570,463.0 ←
Total	2,513.6		125,393.6		\$103,178.7			\$5,381,508.2		

If Wisconsin (1.2%) were at parity with the nation (1.7%) in its share of high-income returns (see above), it would have 10,377 more returns filed by those with AGI in excess of \$200,000. In addition, if average income reported on these hypothetical Wisconsin returns were the same as the national average (\$570,463), an additional \$5.9 billion in income would be reported annually. Recall that 1999 annual venture capital disbursements in Wisconsin were \$123 million.

This is not a new problem. Although lack of comparable IRS data over time limits analysis, it is interesting that in 1998, 11.3% of Wisconsin's federal tax returns showed AGI above \$75,000, compared to 12.4% nationally. Twenty years before, IRS figures for 1979 showed 10.7% of state filers and 11.8% of all U.S. filers were above this level, adjusted for inflation (\$30,000). The gap (1.1 points) between the proportion of higher-income returns filed in Wisconsin as compared to the U.S. was unchanged over a twenty-year period.

Wealth. A similar pattern holds for personal wealth. Using estate tax returns for 1995, the IRS recently projected the number and assets of individuals with gross assets above \$600,000 and net worth under \$10 million. Wisconsin had an estimated \$71.2 billion in total assets and \$66.4b in net worth, after subtracting debt.

Viewed from three perspectives, these amounts suggest the state is asset-poor:

- Personal holdings of Wisconsinites represented 1.30% of a \$5.5 trillion national total. By comparison, Wisconsin's share of personal income, gross state product and population were all between 1.84% and 1.95%.
- Wisconsin had \$13,862 in wealth per capita, which placed it 41st nationally. The U.S. per capita average was \$20,864, or 51% higher. The state trailed all of its neighbors: Illinois (8th), Iowa (15th), Michigan (38th) and Minnesota (30th).
- Finally, Wisconsin's assets were 63.1% of its personal income. Nationally, projected assets were 90.5% of personal income and ranged from a high of 129.8% in Florida to a low of 57.7% in West Virginia. Other than West Virginia, only three states were below Wisconsin: Rhode Island (61.9%), Indiana (61.6%) and Arkansas (60.1%)

By extrapolating from national data, as was done with federal income tax figures, these figures suggest that, if Wisconsin were at parity with the nation, total personal assets would be between \$31 billion and \$36 billion higher than they are. Specifically, if the state's share of national assets were the same as its share of personal income (1.86%), state assets would total \$102 billion, instead of \$71 billion. If per capita state and national assets were the same, Wisconsin holdings would be \$107 billion, \$36 billion or 51% more than actual. Even if \$31 billion were invested to earn 5% annually, the \$1.5 billion in income generated would be twelve times last year's venture capital disbursements in the state.

There are a host of reasons why Wisconsin lacks the high-income, high-wealth individuals that could enrich new venture capital funds:

- For starters, in today's economy individual wealth is being accumulated in those states with a preponderance of individuals who have a stake in financial services or technology firms. Wisconsin's economy is anchored by mature manufacturers.
- Also, Wisconsin does not have the concentration of income- and wealth-spawning corporate headquarters found on the coasts. The lack of headquarters has been exacerbated by recent merger and acquisition activity. Increasingly, Wisconsin hosts plants and branch offices, not headquarters.
- Some blame Wisconsin winters for loss of income and assets to southern states, but that does not explain why Illinois, Minnesota and Michigan fare better on income and wealth statistics than the Badger state. Besides, one does not need to move income or wealth to avoid snow.

A final factor worth mention is tax burden. High individual income taxes, it is argued, act as a disincentive to accumulating and holding personal wealth. Preliminary statistical analyses by Wisconsin Taxpayers Alliance staff suggest that, controlling for a number of other factors, personal and/or corporate taxes may have a role to play in location decisions of both the persons and the enterprises that generate high incomes and personal wealth.

VII. Recap

What can be learned from the Wisconsin fiscal experience over the past two or three decades?

- First, the state remains below-average in income. The last five years suggest Wisconsin is stalled at a new, lower equilibrium compared to the nation than existed in the sixties and seventies.
- Second, regardless of data source, Wisconsin remains a high tax state. It could be argued that the tax burden has inexorably grown since the 1981-82 recession. This is particularly true with state GPR taxes, most notably the income tax.
- Third, the combination of the above income and tax factors means that, vis-à-vis other states and the nation, government remains relatively unaffordable here.
- Fourth, viewed in five-year periods, inflation-adjusted state general fund expenditures have been accelerating since 1980. In terms of interstate comparisons, it is local, rather than state, government spending that ranks the highest (sixth in 1995-96).
- Fifth, fiscal management practices have not helped; the findings of the Strategic Development and Expenditure commissions appointed by Governor Earl still hold. With strong growth in state revenues in the past decade, state expenditures have followed, consuming available revenues and then some. A fifteen-year-old state budget stabilization fund designed to address this problem has never been used. Particularly troubling are the recurring "structural deficits" found in state budgets since the 1993-95 biennium.
- Sixth, state income taxes, and state-local taxes generally, are sufficiently high compared to competitor states so as to have the potential to provide a disincentive for educated young, in-state workers to remain in Wisconsin or skilled out-of-state workers to consider relocating.

- Seventh, Wisconsin has long had a shortage of the venture capital needed to ensure that the state's promise of a brighter future through biotechnology research is to be realized.
- And, eighth, IRS figures show that the state lacks the high-income and high-wealth individuals that could close the venture capital gap. High state-local taxes, and particularly income taxes, have to be considered as one of several factors in the capital shortage.

VIII. Recommendations

It has historically not been the mission of the Wisconsin Taxpayers Alliance to play an advocacy role in public policy debate. This paper does suggest, however, several productive lines of further inquiry and several policy initiatives.

There is clearly a need to better understand: why state per capita income is chronically below national levels; what role taxes play in encouraging some of the state's most talented young people to leave and desired out-of-staters not to migrate here; why venture capital activity continues to lag the nation, and particularly states such as Minnesota and Illinois; and what factors are contributing to the disproportionately small shares of high-income and high-wealth people living here.

As for policy direction, a good first step would be to implement the 1986 recommendations of Governor Earl's Expenditure Commission. Fixing state-local expenditures to a national benchmark and making use of the long-dormant budget stabilization fund would add some needed discipline and planning to public expenditure decisions.

A corollary to this would be for the governor and legislature to statutorily set the amount of revenues that they would use over a biennium *before* the state budget process begins. In recent biennia, revenue windfalls have fueled spending and encouraged less-than-responsible budgeting practices.

On a more fundamental level, the state needs to have a dialogue on whether its state-local tax system is well-adapted to the emerging information economy and whether it is appropriately balanced between taxes on work and investment on the one hand, and consumption on the other.

Todd A. Berry, President, Wisconsin Taxpayers Alliance
335 W. Wilson St., Madison, WI 53703; (608-255-4581; wtataxes@itis.com.

About the Author. Todd A. Berry has been President of the Wisconsin Taxpayers Alliance (WTA) since 1994. The Alliance is a nonprofit, nonpartisan organization dedicated to public policy research and citizen education. Berry's career spans the public, private and nonprofit sectors. In the late seventies and early eighties, he was Wisconsin's Assistant Secretary of Revenue and Executive Director of the Governor's Tax Reform Commission. From 1983 to 1993, he was a marketing executive with one of Wisconsin's oldest family firms in Fort Atkinson. Todd has also served as a member of: the Dane County Board, the Jefferson School Board and the CESA #2 Board of Control. He is currently Vice-Chair of the North Central College (IL) Board of Trustees. A graduate of UW-Madison, Berry holds Master's degrees in planning/policy analysis (Harvard) and business administration (University of Chicago).