

# **THE BUSINESS VIEWPOINT: REGULATION & TAX POLICY**

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**States need to reshape the economic environment to facilitate business expansion, and eliminate market distortions caused by outmoded taxes and regulations.** *This paper will address specific recommendations to change tax and regulatory policies in Wisconsin to better position us for continued economic success in the 21st Century.*

1999 Statistics from the Department of Workforce Development and Wisconsin Policy Research Institute clearly document Wisconsin's unprecedented job growth and booming economy in the decade of the 1990's.

- Wisconsin's Unemployment Rate has been below the national average for nearly 13 years.
- Between 1991 and 1999, employment in the state grew by 21 percent, surpassing the nation's 13 percent growth rate.
- Wisconsin created 107,000 jobs in 1999.
- Wisconsin created 65,200 manufacturing jobs between 1988 and 1998. That rate of growth averaged 1.6 percent per year, and was the second largest increase in manufacturing jobs for any state in the nation.
- As of 1999, 22.17 percent of all non-farm jobs in Wisconsin were in the manufacturing sector, making Wisconsin second in the nation. The national average for non-farm jobs in manufacturing is about 16 percent.
- Wisconsin has the third highest workforce participation rate in the nation, at 74.4 percent, compared to the national average of 67.1 percent.
- The value of manufacturing property in the state climbed to a new record of \$12.4 billion.

Wisconsin businesses have made significant investments in creating jobs for more and more people. Our robust economy produces the kind of prosperity that leads to a stronger future for our families and communities.

But Wisconsin, like America, starts the 21st Century in a different economic setting. A February 2000 National Governor's Association (NGA) report was a clarion call for new state strategies for a new economy.

"A new knowledge-based economy has supplanted the manufacturing economy that dominated the past 100 years," according to the NGA report. The report goes on to say that "this new economy uses technology and intellectual capital, rather than energy and raw materials as its primary inputs. In addition, a renewed globalization has taken hold. Market restrictions between borders are being reduced or eliminated, and modern communication and transportation networks are enabling jobs to flow anywhere in the world. Instead of heavy industries needing to locate near the waterways, railroad junctions or sources of fuel, knowledge-based firms in this new economy locate where educated and skilled workers live, where opportunities for life-long learning exists, and where the quality of life is valued."

In many ways, Wisconsin is at an economic crossroads. Because our historically diverse economy - agricultural, manufacturing, services and tourism -- has been one of our strengths, we now face potential vulnerability in light of declines in agriculture and a predicted gradual shift away from domestic manufacturing. There has also been a dramatic change in the nature of Wisconsin business as a result of corporate mergers and acquisitions. Forty-six percent of the major manufacturers (employing 500 or more employees) are no longer headquartered in Wisconsin. Over 320 "good Wisconsin companies" are now owned by foreign corporations. Similar trends are occurring in the business service sectors, where banking and insurance acquisitions have resulted in corporate headquarters leaving the state.

This is all significant, because come an economic downturn, people making decisions about what plants to consolidate, close or relocate, bring no particular subjective values to the table about Wisconsin and our quality of life. Our challenge is to infuse the "new economy" technologies into our "old economy" manufacturers and farms, while at the same time, nurturing the growth of high technology firms in our state.

Much has been written about economic development strategies that target specific industries - matching industrial competitive requirements with regional economic comparative advantages. This contrasts dramatically with more basic strategies that *improve the state's business climate, allowing markets to determine economic winners*. Clearly, Wisconsin's economic development strategies in the immediate future must assist existing businesses to employ technology and intellectual capital, while at the same time, building on our strengths as a potential home for life sciences, information or financial management high technology companies. Improving business climates, reducing unnecessary regulation, providing quality public services at affordable tax rates, are non-targeted practices that afford equal opportunity to all businesses to start, survive and thrive in Wisconsin, rather than singling some out at the expense of others.

This is in line with the NGA report that called on state governments to transform themselves to provide a supportive environment for businesses, and citizens to prosper by becoming:

- Flexible and adaptable
- Consumer friendly
- Reinvented with technology
- Innovative
- Performance Driven
- Accountable

The NGA identified three basic strategies states need to adopt to compete in the new economy:

1. **State government needs to re-engineer itself to become adaptable, customer-oriented and performance driven.** Government should be results-based, focusing on achieving the outcomes that citizens expect of government, and directing resources to policies and programs that are effective in achieving those outcomes. State governments need to decentralize decision-making, employ public/private partnerships, explore privatization of government functions, and use technology to improve and transform service delivery.

2. **States need to invest in their human and physical capital to attract new economy workers and businesses.** Investments in people should focus on education and life-long learning, ensuring they have opportunities to gain the prerequisite knowledge and skills for the coming decades. Physical investments should focus on traditional infrastructure, roads, railroads, ports and airports, as well as the critical telecommunications backbone needed in the new economy.
3. **States need to reshape the economic environment to facilitate business expansion, and eliminate market distortions caused by outmoded taxes and regulations.** This paper will address specific recommendations to change tax and regulatory policies in Wisconsin to better position us for continued economic success in the 21st Century.

## **REDUCE WISCONSIN'S TAX BURDEN**

The business viewpoint on regulations and tax policy is a product of extensive surveys, both of business leaders and the public. A cross-section of more than 500 Wisconsin business leaders confirmed public opinion surveys dating back more than a decade that identify Wisconsin's extraordinary tax burden the biggest barrier to continued economic growth. In 2000, Wisconsin had the fifth highest total tax burden in the nation. We improved from fourth highest in the previous year. By contrast, neighboring states made dramatic progress between 1999 and 2000: Minnesota dropping from 3rd highest to 13th, Michigan from 7th to 19th, and Illinois from 11th to 15th. As its priority economic development strategy, Wisconsin should reduce the total state and local tax burden so that we no longer rank among the 10 highest taxing states in the nation. High taxes threaten our economy, limit personal opportunity, and jeopardize the quality of life in this state.

### **Recommendations**

Adopt the single sales factor apportionment. Wisconsin should support corporate income tax changes that create jobs and expand businesses in Wisconsin by changing the three factor corporate apportionment formula to a single sales factor formula. Such a change will benefit national companies who have made investments in plant, equipment and personnel in Wisconsin. Current Wisconsin corporate tax policy rewards companies that move equipment and people out of the state, and punishes them when they expand within the state. All of our neighboring states have either adopted 100 percent sales factor in their apportionment formula, or are aggressively moving toward it.

Reduce personal income taxes. Wisconsin should reduce personal income tax rates sufficiently enough to drop Wisconsin out of the ten top states in personal income taxation. Without some relief in the overall income tax burden, it will be increasingly difficult to recruit and attract managerial talent to the state.

Eliminate the personal property tax. Wisconsin could improve its business climate by continuing to eliminate the remaining categories of business equipment, still subject to the personal property tax. Only businesses are subject to personal property taxes, and while great progress has been made in their elimination, its time to finish the job.

Return surpluses to taxpayers. Legislation should be adopted to ensure that any surplus state revenues generated as a result of a robust economy are returned to the taxpayers in the form of permanent tax cuts.

Discourage tax increases. In order to guard against future tax increases, Wisconsin should consider changing the Constitution to require a two-thirds majority vote in the legislature to raise taxes in the future.

## **LIMIT GOVERNMENT SPENDING**

The growth in state and local government spending has caused taxes in Wisconsin to grow faster than personal income. This growing burden threatens our economic prosperity, and continues to reduce the disposable personal income of average working families in Wisconsin.

### **Recommendations**

Limit Government Spending. Limit the growth in state and local government spending to no more than the growth in the consumer price index in order to reduce the overall tax burden in Wisconsin.

Improve Public Accountability. Require that school spending, bonding, and other local government referenda coincide with regularly scheduled elections in order to ensure that the maximum number of taxpayers have a say in the decisions.

Reform the State and Local Government Finance System. Reform Wisconsin's system of providing state aid to local governments and school districts in order to improve fiscal accountability at all levels of government.

Increase Return on Federal Taxes. Improve Wisconsin's return on federal taxes paid by ensuring appropriate utilization of existing grant, aid, and reimbursement programs.

## **REFORM ENERGY AND TELECOMMUNICATIONS REGULATION**

We must continue the process of restructuring and appropriately deregulating portions of the electric utility and telecommunications industries in Wisconsin. Access to a secure supply of competitively priced energy and an efficient telecommunications infrastructure is essential to maintain Wisconsin's strong economy and to attract new high technology firms.

### **Recommendations**

Encourage Electric Utility Restructuring. Ensure that Wisconsin moves at a prudent, yet deliberate, pace to improve reliability and restructure the energy industry into a competitive market.

Improve Energy Infrastructure. Appropriately expand the capacity of our energy infrastructure in a manner that will keep pace with the demands of our growing economy. Needed expansion includes: electric transmission lines, natural gas pipelines, and power plants to ensure an adequate supply of competitively priced energy.

Continue Telecommunications Restructuring. Continue the process of telecommunications restructuring and resist efforts to re-regulate services, add-on unnecessary regulatory oversight, or use regulation to manage the development of competition.

Reform Utility Regulation. Reform the current utility regulatory framework to eliminate unnecessary requirements that create regulatory and economic uncertainty, delay needed capacity enhancements and drive up costs.

## **IMPROVE ENVIRONMENTAL REGULATION**

We must ensure that any new environmental laws or regulations are based on sound science, and are prioritized to ensure that scarce resources are directed at solving the most significant environmental problems facing the state. Our strong environmental ethic should be reflected in practical environmental policies that can be efficiently implemented. Regulatory principles should evolve from command and control strategies that punish offenders, toward incentive programs that reward good outcomes.

### **Recommendations**

Encourage Voluntary Improvement. Encourage voluntary environmental compliance audits by limiting penalties and providing an evidentiary privilege to those parties who find a compliance deficiency on their own initiative and take steps to correct it.

Reduce Environmental Fees. Change the way environmental fees are assessed so that they decrease as environmental impact is decreased.

Improve Recycling Efficiency. Improve the efficiency of our statewide recycling program in order to eliminate the need to subsidize the program with corporate taxes or fees.

Promote Federal/State Consistency. Resist efforts to expand Wisconsin environmental regulation beyond federal requirements, unless there is a clear demonstration of need based on sound science.

Establish Permitting Time Limits. Establish specific, enforceable time limits for the issuance of environmental permits.

Encourage Environmental Planning. Encourage the Department of Natural Resources to develop a strategic environmental plan for Wisconsin to guide the development of new regulations and allow industry time to identify and implement compliance strategies.

## **IMPROVE THE HEALTH CARE SYSTEM**

Health care costs are a significant factor in the competitiveness of Wisconsin business. We must focus our cost containment efforts on improving quality, and reducing unnecessary and/or inappropriate treatment.

### **Recommendations**

Allow Benefit Flexibility. Allow fully insured (non-self funded) employers to choose which of the currently mandated health insurance benefits they will provide and pay for.

Minimize Cost Shifting. Minimize the impact of cost shifting on private payers and preserve access to critical facilities (rural and inner city hospitals and clinics) by obtaining fair reimbursement from government payers for health care services.

Improve Health Care Quality. Improve the collection and analysis of health care outcome data, and encourage purchasers and insurance companies to direct resources to providers that demonstrate a commitment to patient safety, improving quality, and reducing unnecessary or inappropriate treatment.

## **REFORM EMPLOYMENT LAWS**

Wage and benefit mandates and other employment regulations drive up costs and affect the ability of Wisconsin business to compete in national and international markets. We need to reduce this regulatory burden by establishing state/federal consistency wherever possible, and by streamlining the administration and enforcement laws in Wisconsin.

### **Recommendations**

Improve Workplace Safety. Eliminate felony conviction as a protected class under Wisconsin's Fair Employment law to allow employers to appropriately screen and place prospective employees with criminal records.

State/Federal Consistency. Eliminate unnecessary differences between similar state and federal regulations where possible to avoid confusion and improve administrative efficiency.

Clarify Misconduct Rules. Develop a clear definition of what constitutes employee misconduct for the purposes of denying unemployment insurance benefits.

Promote Cooperative Labor/Management Policy Making. Promote the continued use of the Unemployment Insurance and Workers' Compensation Advisory Councils as the primary policy making vehicle for these two programs.

## **ENHANCE THE TRANSPORTATION SYSTEM**

State transportation policies should ensure that all aspects of our transportation infrastructure are properly maintained and expanded as necessary, while ensuring that limited resources are used efficiently in support of priority projects.

### **Recommendations**

Broaden the Base of Transportation Funding. Dedicate motor vehicle sales taxes to the Transportation Fund to reduce reliance on the gasoline tax to fund the transportation budget.

Improve Transportation Infrastructure. Ensure that the transportation budget funds road rehabilitation and construction projects, including the reconstruction of Southeastern Wisconsin's highway infrastructure, while taking steps to address future mobility demands that will be placed on the system.

Enhance Air Transportation System. Improve air service in Wisconsin by eliminating current tax disincentives that discourage investment in Wisconsin-based airlines.

Develop Mass Transit Options. Study responsible solutions to address Wisconsin's intra- and inter-city mass transit needs.

## **REFORM THE LEGAL SYSTEM**

Excessive litigation is costing businesses and individuals billions of dollars, and is affecting our international competitiveness. We need to control excessive litigation, limit costs, and restore fairness and predictability to our legal system.

### **Recommendations**

Limit Frivolous Lawsuits. Protect product manufacturers from lawsuits where damages arise from an open and obvious characteristic of a product, or result from product misuse, alteration or modification.

Limit Non-Economic Damages. Place statutory limits on punitive damages and other non-economic damages which cannot be subjectively calculated or defined.

Establish Liability Time Limits. Limit a manufacturer's liability for manufactured products that are at least 15 years old.

## **IMPROVE THE EDUCATION SYSTEM**

A world class education system from kindergarten to college, or technical school, is essential if Wisconsin business and industry is to remain competitive in the global economy. We need to pursue basic changes in the way we structure and deliver education in this state to include measuring outcomes, improving accountability, rewarding excellence, and encouraging innovation.

## **Recommendations**

Promote Teacher Competency. Authorize school districts to utilize teacher competency evaluations for purposes of continuing employment and compensation.

Expand Charter Schools. Eliminate unnecessary barriers and burdensome requirements that limit the development of charter schools statewide.

Expand School Choice. Expand the statewide school choice program to allow parents to select either a public or private, sectarian or non-sectarian, school for their children to attend.

Encourage Employment Training. Establish tax incentives to encourage the expansion of employer-sponsored education and training opportunities for prospective and current employees.

## **CONCLUSION**

No one of these regulation and tax policy recommendations will necessarily enhance the perception of Wisconsin's business climate among business people making economic decisions affecting our state. But in the aggregate, they send a bold signal that Wisconsin is a "business friendly" state, not content to rest on past successes, but aggressively repositioning itself for the future.

In an increasingly competitive global marketplace, it is important to move fast and boldly to strengthen the economic base we have, as well as to project Wisconsin as an ideal location for new economy businesses in the future.

## Jim Haney, President

A native of Amery, Wisconsin, Jim Haney has a background in both the public and private sectors. He was an aide to Wisconsin's Governor Warren Knowles, and served as assistant to the Secretary of the Wisconsin Department of Industry, Labor and Human Relations, and as Deputy Secretary of the Wisconsin Department of Revenue under Governor Lee Dreyfus.

With a law degree from the University of Wisconsin-Madison, he practiced law and then served as Public Affairs Director of the Bergstrom Paper Company in Neenah. Jim was also District Manager of Public Affairs for Wisconsin Bell before he joined Wisconsin Manufacturers & Commerce.

In June of 1985, Jim Haney became President of WMC, which is often referred to as "the state's largest and most influential business and industrial organization, representing over 4,000 members statewide."

Jim is a member of the Wisconsin Council of Workforce Investment, International Trade Council, and the UW-Extension Board of Visitors. Jim also serves on the boards or advisory boards of the Wisconsin Foundation for the Arts and the American Players Theatre, and is a Councilor to the Wisconsin Academy of Sciences, Arts & Letters. Jim is a past Chairman of the Conference of State Manufacturing Associations.