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Limiting Government Spending in Wisconsin

REPORT FROM THE PRESIDENT:

With the issue of spending limits being hotly debated in Madison, we asked Richard Chandler to develop a comprehensive paper on this issue. Chandler has served Wisconsin as former Secretary of Revenue and Director of the Budget. He has spent most of his adult life analyzing Wisconsin's taxes and spending decisions.

In this study he notes that, in 2002, state and local government spending in Wisconsin was 7.7% above the national average while our income level was 2.8% below the national average. As a result, Wisconsin government spent $2.4 billion more than if it had spent at the national level. This is one of the reasons why many people describe Wisconsin as a tax hell.

As Chandler adroitly points out, the question of spending limits is not a new idea created by Republicans in the Legislature. As early as 1986, when Democrats ran the state, the Wisconsin Expenditure Commission articulated the view that Wisconsin should create spending policies that would be dictated by the ability of Wisconsin citizens to pay. If we look at recent Wisconsin history there is little doubt that if we had followed the Expenditure Commission recommendation in 1986, which would have tied spending levels to personal income growth, our tax rates would have been substantially lower.

This is not some academic or bureaucratic theory. The effect of revenue limits on K-12 schools, which began in the 1993-94 school year, serves as an example. In the seven-year period before the revenue limits were adopted, the cumulative amount of K-12 spending increases was 53%. In the seven years after revenue limits were adopted, the K-12 spending increase per pupil fell to just 33%. Yet, it is interesting to note that the quality of educational achievement in Wisconsin has not changed. In the last ACT report we are still number one in the country.

Clearly, spending can be curtailed without cutting necessary services. The choice is simple: Wisconsin either chooses to adopt a rational spending and tax policy for this century or we will continue a downward spiral that may not be correctable in the future.

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LIMITING GOVERNMENT SPENDING IN WISCONSIN

RICHARD CHANDLER

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EXECUTIVE SUMMARY

There is a significant mismatch between the level of state and local spending in Wisconsin and the ability of the state's citizens to pay for government spending. In 2002, total state and local government spending in Wisconsin was 7.7% above the national average, which meant that government spending in Wisconsin was $2.44 billion more than if we had spent at the national average level. Wisconsin's income level was 2.8% below the national average. Adopting comprehensive and reasonable limits on government spending would help address this mismatch while maintaining Wisconsin's high quality of life.

The Wisconsin Legislature and the public have spent considerable time in 2004 debating whether the state should adopt comprehensive spending limits for state and local government. The debate was sparked by concerns that Wisconsin's spending and tax levels are too high, overburdening the state's citizens and hurting economic growth, and that the state budget process needs to be improved to avoid boom and bust budget cycles.

The discussion initially focused on Assembly Joint Resolution 55 (AJR 55), which was introduced in the Legislature in November 2003. AJR 55 contained strict controls which would have limited spending growth to the rate of increase in the consumer price index plus population growth, unless a faster rate of growth was authorized by referendum, and would have imposed other restrictions on state and local spending, taxing, and bonding. Critics of spending limits said that AJR 55 was too restrictive and would damage the quality of government services in Wisconsin, and therefore argued against adopting any comprehensive limits at all.

While some legislators supported AJR 55 and others opposed it, a number of legislators who supported the goal of restraining spending increases had concerns about the specific provisions in AJR 55 and wanted to look at other alternatives. A number of other alternatives were discussed, but no formal legislative action was taken in the first six months of 2004.

In July 2004, the Legislature was called into extraordinary session to debate the issue of spending limits and Senate Joint Resolution 76 (SJR 76) was introduced. It provided that spending for each type of government at the state and local level (state government, K-12 school districts, municipalities, counties, and Wisconsin Technical College System districts) could increase in the aggregate at no more than 90% of the rate of personal income growth, unless a faster rate of growth was authorized by referendum.

A Senate committee approved SJR 76, but the Legislature adjourned without taking further action on it. In the end, the Legislature as a whole was not able to come to a consensus about the best approach to this issue and did not vote on any spending limit proposals in 2004.

This issue will be revisited when the Legislature reconvenes in January 2005. As the debate takes place, it is important to view the issue of spending limits in the proper perspective. This study discusses ways to design sensible, reasonable, and workable spending limits that would benefit Wisconsin's taxpayers, help Wisconsin's economy, and improve the state's long-term fiscal health, without jeopardizing vital government services.

This study addresses several issues. The first broad issue is whether Wisconsin needs to improve its fiscal management. Wisconsin's spending and tax levels have been high in the past and remain above average today. Current practices have not provided adequate fiscal discipline.

- State and local spending in Wisconsin was 7.7% above the national average in 2002. It represented 21.4% of personal income in 2002, up from 19.8% in 1986.
- Wisconsin's tax levels were 12.8% above the national average in 2002. Wisconsin's tax levels were particularly high for the property tax (27.0% above average) and the individual income tax (34.5% above average).
- Wisconsin's spending and tax levels have moved closer to the national averages in recent years, but remain high today.

High tax levels hurt economic growth and job creation in Wisconsin. The overall tax level and the individual income and property tax levels are important to businesses when they make decisions about where to locate and expand, and are also important to individuals when they make decisions about where to seek career opportunities.

Another broad issue is whether spending limits are a reasonable fiscal management tool. Based on a review of legislation in other states and past studies in Wisconsin, this study concludes that comprehensive spending limits are a commonly used, reasonable way to address spending and tax policy, and are a key part of a good overall fiscal management strategy. Adopting spending limits is not a new or radical idea.

- There are twenty-seven states with comprehensive limits. The majority of them link spending growth with personal income growth.
- The bipartisan Wisconsin Expenditure Commission recommended in 1986 that Wisconsin should adopt limits that would bring the state's spending levels to the national average and then allow spending to grow at the rate of personal income growth in the future.
- Wisconsin has adopted a number of targeted spending limits over a period of years, which apply to specific areas of state and local spending.

In evaluating specific spending limits, several questions need to be addressed. What measures make sense from a policy perspective? Would those measures have worked well in practice? This study concludes that spending limits based on personal income growth or a percentage of personal income growth would balance the need for reasonable spending and tax levels with the desire to have good government services.

- Limits based on personal income growth or a percentage of personal income growth would relate government spending increases to the ability of Wisconsin's citizens to pay.
- If comprehensive spending limits tied to personal income growth had been adopted in the state in 1986, by 2002 Wisconsin's state and local government spending level would have been roughly at the national and regional averages. Wisconsin would have spent 19.8% of personal income in 2002, rather than the actual level of 21.4%. This compares with a national average of 19.9% and a regional average of 19.6% in 2002.
- If comprehensive spending limits based on personal income growth were in place, government services would still be adequately funded based on comparisons with national and regional averages, and the state's tax burden could be reduced by a noticeable amount, all other factors being equal.
- If comprehensive spending limits tied to personal income growth had been adopted in the state in 1986, by 2002 Wisconsin's state and local spending would have been roughly $2.58 billion less than it actually was. If this amount would have been used to reduce property and individual income taxes in 2002, the 2002 tax collections from these tax sources could have been reduced by approximately 19% for property taxes and 25% for income taxes.
- Spending limits tied to personal income growth would moderate the rate of spending increases so the state would establish a more desirable level of spending over time. They would result in a slightly slower rate of annual growth in government spending (by about one half of one percent per year) but would not result in massive dislocations of government services.

Spending limits are not the only tool that should be used to improve the state's fiscal situation. A comprehensive fiscal management strategy would include spending limits, an adequately funded reserve fund, and measures designed to discourage unfunded future spending commitments and deferrals of payment obligations to future years. Also, limits need to be carefully drafted so they do not cause problems in practice by impeding the ability of the state or local governments to issue bonds, discouraging new development needed for economic growth, or creating other unintended consequences.

Overall, reasonable, sensible, and workable spending limits tied to personal income growth would ease the tax burden on Wisconsin's citizens, help the state become more competitive economically, allow us to maintain good government services, and help avoid boom and bust budget cycles.

INTRODUCTION

The levels of government spending and taxes, and the state budget process, have been the subjects of ongoing policy and political debate in Wisconsin for many years. Many observers have argued that spending and tax levels in Wisconsin are too high, overburdening the state's citizens and hurting economic growth. Other people have argued that the state budget process needs to be improved so that the state avoids boom and bust budget cycles.

Establishing clear and comprehensive spending limits and budget guidelines could help address these concerns about high taxes and a flawed budget process. Comprehensive spending limits could help Wisconsin establish spending and tax levels that are more in line with the ability of the state's citizens to pay and more in line with the levels in other states. By smoothing out the trajectory of spending increases, budget guidelines could also help Wisconsin avoid the boom and bust budget cycles the state has experienced in the last several decades.

A spirited public debate has been taking place since a specific proposal to establish spending limits in the state constitution, Assembly Joint Resolution 55 (AJR 55), sometimes referred to as the Taxpayer Bill of Rights (or TABOR), was introduced in the Wisconsin Legislature in November 2003. Other proposals to establish spending limits and budget guidelines have also been discussed, including Senate Joint Resolution 76 (SJR 76), which was introduced in an extraordinary session of the Legislature in July 2004.

There are several reasons why this topic is of great interest at this time. The recent economic recession has squeezed incomes and made people more acutely aware of tax burdens. Ongoing discussions about the state's economic future, income levels, and job opportunities have highlighted the negative impact a high tax burden has on our economic growth rates. In addition, state budget difficulties in the last two bienniums have heightened concern about the state budget process. For all of these reasons, the topic of spending limits is being discussed more widely now than at any time since shortly after the state went through severe economic and budget difficulties in the early 1980s.

In the end, the Legislature as a whole did not vote on any spending limit proposals in 2004. However, the concerns that prompted the introduction of spending limit legislation in the past legislative session mean that proposals to adopt limits will be debated in the next legislative session. The challenge for Wisconsin policymakers is to develop legislation that will address the concerns about the state's spending levels in a way that fits with the policy preferences of Wisconsin residents, and that is workable in practice.

This paper provides background information to help put the discussion about spending limits and budget guidelines in perspective. It reviews the types of comprehensive spending limits that are now in place in other states. It reviews past discussions of comprehensive spending limits in Wisconsin and discusses the limited guidelines that have been adopted in different forms in Wisconsin. It discusses Wisconsin's spending levels and explains why spending and tax levels matter to a state's economic growth rate. It discusses how guidelines could help improve the budget process in Wisconsin. It looks at different alternatives for spending limits and asks how those options, if they had been implemented in the past, would have affected spending levels and government services in Wisconsin.

The theme of this paper is that spending limits and budget guidelines are key components of a responsible fiscal management approach, whether put in place through a constitutional amendment, through state statutes, or by other means. Comprehensive limits would help moderate Wisconsin's above-average spending levels, reduce the burden of taxes on Wisconsin residents, and boost economic growth, while allowing the state and local governments to maintain vital government services. As other states have shown and as commission studies in Wisconsin have concluded, limits can be designed in a sensible, reasonable, and workable way.

Wisconsin has persistently had high spending and tax levels. Total state and local government spending in Wisconsin was 7.7% above the national average in 2002. Total state and local taxes were even farther above average (12.8% above the national average), and property taxes and individual income taxes were extremely high (27.0% and 34.5% above average, respectively).[1] These spending and tax levels are a burden on Wisconsin's citizens and a drag on the state's economy.

Adopting spending limits in order to establish reasonable goals for spending and tax levels is not a new or radical idea. Many states have comprehensive spending limits, defined as limits that cover most state spending funded by general tax revenues and that may also cover spending funded by non-tax revenues at the state level and spending funded by tax and non-tax revenues at the local level as well.

The concept of adopting comprehensive spending limits in Wisconsin at the state and local levels was thoroughly studied and endorsed by the Wisconsin Expenditure Commission in 1986, but limits have been only partially implemented in Wisconsin. At present, Wisconsin has a patchwork of different limits for different units of government, some of which are more comprehensive and stringent than others. Despite the fact that these partial limits are in place, spending and taxes in Wisconsin remain stubbornly high.

If comprehensive limits tied to personal income growth had been adopted in Wisconsin in the 1980s at the time of the Wisconsin Expenditure Commission report, Wisconsin's overall state and local spending and taxing levels would be more moderate now, and would be roughly at the national and regional averages. Spending at these levels would arguably enable Wisconsin to provide vital government services with a noticeably lower tax burden. A strong case can also be made that adopting comprehensive guidelines in the 1980s would have helped Wisconsin avoid the boom and bust budget trends the state has experienced since then.

Many Options for Designing Reasonable Spending Limits

It is important to keep in mind several points during the current debate on proposals to establish spending limits to keep the issues in the proper perspective. Initially, the debate focused on the proposed constitutional amendment contained in AJR 55, which was similar to a constitutional amendment enacted in Colorado. AJR 55 provided that annual increases in state and local spending could not be more than the increase in the cost of living as measured by the growth in the consumer price index (CPI) plus population growth, with certain adjustments for different levels of government, unless the limits were changed by referendum. It also contained a number of other provisions, such as a requirement that tax increases and bond issues had to be approved by referendum and a requirement for the establishment of reserve funds.

The debate on this issue initially turned on whether people liked or disliked the specifics of AJR 55. AJR 55 was based on a growth measure (consumer price index plus population growth) that was the most restrictive of the measures used in other states, was far-reaching (establishing not just spending limits but also other restrictions, such as the requirement for referendum approval of all bonding), and would have included detailed language, not just broad principles, in the state constitution. As such, AJR 55 was criticized as too far-reaching, and many of its critics then went on to oppose all spending limits.

The Legislature did not vote on AJR 55 during the regular legislative session in 2004. In July 2004 the Legislature was called into extraordinary session to debate the issue of spending limits and SJR 76 was introduced. It provided that spending for each type of government at the state and local level (state government, K-12 school districts, municipalities, counties, and Wisconsin Technical College System districts) could increase in the aggregate at no more than 90% of the rate of personal income growth, unless a faster rate of growth was authorized by referendum. It provided that there could be variations in the rate of allowable increase among individual local governments (based on the net value of new construction for municipalities, population growth for counties and pupil enrollment changes for K-12 schools and technical college districts), as long as the statewide increase for each type of government was within the allowable percentage. It also allowed for a few exclusions from the limits, including exclusions for local debt service expenditures, expenditures for tax incremental finance districts, and expenditures from tuition revenue. A Senate committee approved SJR 76, but the Legislature adjourned without taking further action on it.

In the end, the Legislature as a whole was not able to come to a consensus about the best approach to this issue and did not vote on any comprehensive spending limit proposals in 2004. This issue will be revisited when the Legislature reconvenes in January 2005.

As this issue is being discussed, the debate should not be viewed as just a choice between the specific proposals in the most recent legislative session or no limits at all. There are many options for designing reasonable limits. Viewed in this context, the decision for the state at this point is not simply whether to adopt the specific measures that were proposed in the recent legislative session, but really is about whether the state should craft a reasonable, effective set of limits tailored to Wisconsin's needs and preferences.

Comprehensive Spending Limits Have Been Implemented in Many States

Much attention has been focused on the spending limits in Colorado, because AJR 55 was patterned after the Colorado limits. One important point to keep in mind is that many states besides Colorado have enacted budget guidelines in different forms. There are twenty-seven states that have some type of broad, comprehensive budget guidelines or spending limits. Of these, seventeen are based on constitutional language, and ten are based on statutes passed by state legislatures.

According to information compiled by the National Conference of State Legislatures and the Colorado Legislative Council, the states that have adopted comprehensive state spending limits use a variety of measures for the limits.[2]

- Four states use the increase in the consumer price index as a starting point, allowing spending to increase at the rate of CPI growth plus population growth. Colorado and Washington are two states that use this approach.
- Two states use hybrid approaches, using the CPI measure in combination with other measures. Utah uses a measure based on a combination of CPI growth, population growth, and personal income growth, while Connecticut uses either CPI growth or personal income growth, whichever is greater.
- The majority of states with limits, sixteen in all, use personal income growth as the starting point for their measures. Seven states use total state personal income growth as the measure of allowable growth, while six other states (including Michigan and Missouri) limit spending levels to a fixed percentage of total state personal income, which has the same effect as using total state personal income growth. Two states (New Jersey and Louisiana) use the change in per capita personal income. One state (California) uses per capita personal income plus population growth.
- Five states provide that budgeted spending cannot exceed a set percentage of revenues received by the state in a given year. For example, Iowa provides that appropriations cannot exceed 99% of adjusted general fund receipts.

SPENDING LIMITS HAVE BEEN THOROUGHLY STUDIED IN WISCONSIN

It is also important to understand that this is not the first time that the desirability of spending limits and budget guidelines has been discussed in Wisconsin. An extremely thorough and well-researched review of this subject was conducted by the bipartisan Wisconsin Expenditure Commission, appointed by Governor Tony Earl in 1985 at a time of fiscal stress for Wisconsin. The Expenditure Commission studied Wisconsin's spending policies for over a year before issuing a comprehensive report.

The Expenditure Commission identified two challenges to fiscal planning in Wisconsin:

- Reducing the overall level of spending as a percentage of personal income for state and local government.
- Managing the state budget through periods of revenue volatility.

The Expenditure Commission's core recommendation was that Wisconsin should develop a long-term government expenditure strategy that would both recognize its citizens' ability to pay for government services and also improve its competitive position relative to other states.[3]

The Expenditure Commission was an outgrowth of the Strategic Development Commission, which was set up by Governor Earl in 1984 to prepare a long-term plan to strengthen the Wisconsin economy. Among other things, the Strategic Development Commission was directed to compare Wisconsin's spending and taxing policies with those in other states.

The Strategic Development Commission noted that, by any objective measure, Wisconsin is a relatively high spending state. At that time, in 1983-84, total state and local spending in Wisconsin as a percentage of personal income was about 14% above the national average. (The most recent measures show that Wisconsin was 7.7% above the national average in 2002.) The Strategic Development Commission recommended that a state spending commission be appointed to recommend long-term spending targets that took into consideration the costs and benefits of state spending, the state's competitive position, and the capacity of Wisconsin to support public spending.[4]

Following up on these findings, the Expenditure Commission reviewed the state's spending levels and budget process and concluded that a balanced budget alone is not sufficient evidence of responsible government finances. Revenue volatility caused by the business cycle, the commission concluded, meant that matching expenditures to revenues in each fiscal period caused spending volatility. The commission argued that the tradition of a balanced budget should be augmented by a conscious choice: How much of our state's resources should be spent by government? This led to the recommendation that the choice should be to set spending and taxing levels in relation to national averages.

To carry out its strategy, the commission recommended that the goal for Wisconsin should be to bring state and local spending per $1000 of personal income in line with the national average over a six-year period starting in 1987 and ending in 1992-93. It noted that this would not require cuts in state or local spending but rather a slower rate of overall growth. The commission further recommended that at the end of that six-year period, future growth in spending should be limited to the growth in state personal income.

While the Expenditure Commission recommendations did not result in the adoption of formal, comprehensive limits in Wisconsin, after the recommendations were made Wisconsin's spending increases abated for several years in the late 1980s before increasing at a faster rate in the 1990s. The budget and economic difficulties of the past several years have sparked renewed interest in adopting spending limits and in formally establishing budget guidelines in some form.

In 2003, a Wisconsin Policy Research Institute report by George Lightbourn, *Reforming Wisconsin's Budget Process for the Twenty-First Century,* recommended a series of budget process reforms. These included a recommendation that the state establish a bottom line for spending by setting a long-range goal for how much government can spend and tax its citizens. "State government needs a long-range fiscal plan within which future budgets can be developed," the report stated. "The concept of the long-range plan is simple: To set a goal for how much state government (or state and local government) can spend and tax its citizens over an extended period." Budget guidelines are needed, the report said, because "the parameters provided by the balanced budget requirement have proven inadequate and have led to feast-or-famine budgeting."[5]

Wisconsin Has Some Specific Spending Limits But Not Comprehensive Limits

Finally, it should be kept in mind that Wisconsin has adopted a variety of spending limits for different levels of government over a period of years. While Wisconsin does not now have overall comprehensive budget guidelines that cover most spending at the state and local levels, decisions have been made by elected officials in Wisconsin to adopt some targeted spending and revenue limits at both the state and local levels. Since various limits already exist, the decision for the state at this point is not whether to have limits, but whether to have comprehensive and effective limits.

The limits that are currently in place in Wisconsin are the following:

- Revenue limits have been in effect for K-12 schools since the 1993-94 school year. They limit the annual increase in each school district's per pupil revenue derived from state school aids and property taxes to a figure that is tied to inflation ($236 per pupil in 2003-04).
- A program now known as the Expenditure Restraint Program (ERP), which limits spending for certain eligible municipalities which elect to participate in the program, has been in effect since 1991. It provides that, in order to qualify for expenditure restraint aid payments in addition to shared revenue payments and other local assistance payments, a municipality must limit its annual spending growth to a percentage equal to the change in the CPI plus an adjustment based on 60% of the percentage growth in the municipality's property value due to new construction.
- Counties have mill rate limits, which restrict the amount of money they can raise through the property tax. Counties cannot have a mill rate greater than the mill rate that was in effect for the 1992 tax levy (payable in 1993). However, there are no limits on county spending from other tax-supported sources.
- Technical colleges also have mill rate limits, which provide that they cannot impose a tax rate greater than 1.5 mills. However, there are no limits on technical college spending from other tax-supported sources.
- At the state level, spending limits for certain portions of state spending were enacted in the 2001 state budget bill. Essentially they provide that certain areas of General Purpose Revenue (GPR) spending cannot increase faster than the projected increase in state personal income. However, many appropriations are not covered by the limits, notably appropriations for the Department of Public Instruction (including school aids) and the University of Wisconsin, which means that only about 45% of the state's GPR spending base is covered by the limits.[6]

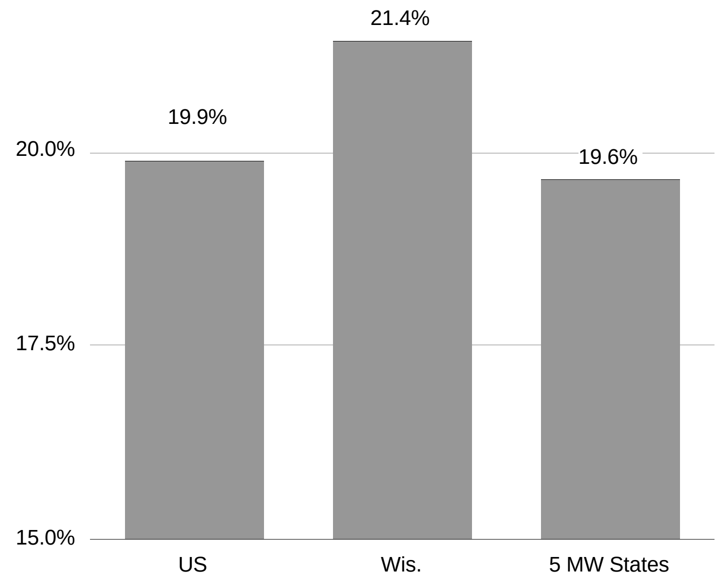
The K-12 limits, which apply to all school districts, and the ERP limits, which apply to eligible municipalities, which voluntarily elect to participate in the Expenditure Restraint Program, are comprehensive and meaningful limits. The mill rate limits that apply to counties and technical college districts have not provided much restraint on spending, because property values have risen much faster than CPI or personal income growth. (Property values rose 178% in Wisconsin from 1986 to 2002, well above the growth rates of personal income or CPI plus population in that period.) At the state level, the limits are obviously not comprehensive since they don't apply to the majority of state general fund spending. Thus, a look at the full picture shows that some limits have been adopted in Wisconsin, but overall they are not as comprehensive or as meaningful as in other states or as the Expenditure Commission recommended.

Wisconsin's High Spending and Tax Levels

Wisconsin today is a state with above-average spending and tax levels, as it was at the time of the Expenditure Commission report, despite the adoption of some spending and revenue controls. While Wisconsin's tax burden is above average, state income levels are below average; in 2002, personal income in Wisconsin was 2.8% below the national average. Wisconsin spends at an above average rate despite having a below average capacity to pay taxes.[7]

Where does Wisconsin currently rank on state and local government spending? The latest U.S. Census Bureau data for state and local spending combined are for 2002. As a percentage of personal income, Wisconsin's total state and local spending was 7.7% above the national average in 2002, according to the Census Bureau. Total state and local spending in Wisconsin represented 21.4% of personal income, compared with a national average of 19.9% and a Midwest average of 19.6% (representing the spending level for Illinois, Indiana, Iowa, Michigan, and Minnesota).[8] (See Figure 1.)

FIGURE 1 WISCONSIN'S SPENDING IS ABOVE AVERAGE



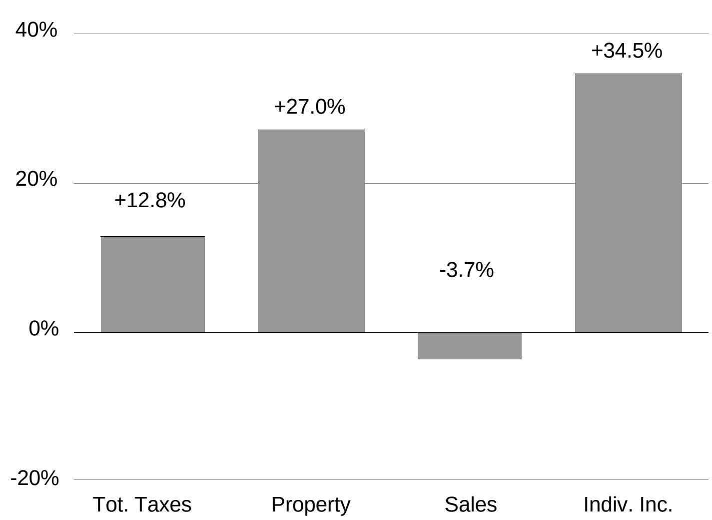
Total state-local spending as a percentage of personal income for the United States, Wisconsin and five other Midwest states (5MW States), 2002

In terms of state and local tax burden, Wisconsin's ranking is higher. In 2002, the latest year for which Census Bureau data are available, Wisconsin was 12.8% above the national average in overall state and local tax burden as a percentage of personal income. (See Figure 2.) In terms of the major tax sources, the state was particularly high on property taxes (27.0% above the national average) and individual income taxes (34.5% above). Wisconsin actually was 3.7% below average in terms of the sales tax burden.[9] Individual income, property, and sales taxes bring in over 80% of Wisconsin's state and local tax revenue.

Wisconsin's state and local taxes as a percentage of personal income have risen during the period from 1986 to 2002, going from 19.8% of personal income in 1986 to 21.4% in 2002.[10] Several steps have been taken in recent years by the Legislature and governors to address this increase.

In the early and mid-1990s, several initiatives were adopted with the goal of reducing the property tax burden. In 1991, what is now known as the Expenditure Restraint Program for municipalities was started. In the 1993-94 legislative session, the Legislature adopted revenue limits for K-12 school districts and required that the state commit to funding two-thirds of the costs of K-12 schools in order to provide property tax relief. In the 1995-96 legislative session, the state implemented two-thirds funding of schools. Over the course of two years, the appropriations level for state school aids was increased by about $1.2 billion, without increasing taxes in other areas.

FIGURE 2 WISCONSIN'S TAX LEVELS ARE HIGH



Wisconsin state-local tax levels per $1000 of personal income compared with national averages, 2002

In the latter part of the 1990s, action was taken to reduce the individual income tax burden. In the 1999-2000 legislative session, the state passed legislation reforming the individual income tax code, providing for a reduction in the income tax burden of about 13% over the course of the 2000 and 2001 tax years through reductions in income tax rates and other changes that targeted the reductions at lower-income and middle-income taxpayers. Following this, in the 2001-02 and 2003-04 legislative sessions, as the state coped with the impact of a national recession, the Legislature and governors of both parties avoided increasing taxes as a means of balancing the budget.

As a result of these major decisions and other decisions, including efforts by local officials, the state's tax burden as a percentage of income has decreased somewhat in the last few years, and the state's tax burden ranking when compared with other states has improved slightly. According to the most comprehensive information available, prepared by the Census Bureau based on actual spending reports for past years, Wisconsin ranked fifth in terms of combined state and local tax burden per $1000 of personal income as of 2002. The state ranked high in 2002 on property tax burden (9th) and individual income tax burden (10th), and in the middle on sales tax burden (25th) and corporate income tax burden (23rd). Wisconsin had ranked fourth in combined state and local tax burden in 2000.[11] According to the Tax Foundation, a national organization which analyzes tax data and which has made estimates for the current year, the state's ranking in 2004 improved to sixth in terms of state and local tax burden per $1000 of personal income.[12]

Thus, in terms of reducing the state's tax burden as a percentage of income and improving Wisconsin's ranking relative to other states, there has been some progress in recent years. Notably, much of the progress has been due to the adoption of spending limit incentives for municipalities and revenue limits for K-12 schools. However, while these recent trends are encouraging, Wisconsin's tax burden is still high in absolute terms, whether measured by tax ranking or in relation to the average tax burden nationwide, and the state's spending levels are still above average.

These facts have generated renewed interest in the adoption of more comprehensive spending limits. One point to note is that the most significant and comprehensive limits that were adopted in the 1990s (the K-12 and ERP limits) were adopted as parts of packages that included additional aid in the form of more school aid and new ERP aid for municipalities. In light of the state's budget constraints, it probably will be difficult to combine limits and increased state aid in similar fashion in the future, meaning that the debate will have to be a straightforward debate about whether it is desirable to have comprehensive limits.

WHY TAX LEVELS MATTER TO A STATE'S ECONOMY

Does tax burden matter? Clearly a state's tax burden has an impact on the disposable income and the financial well-being of its citizens. Many studies have concluded that a state's tax burden also has a significant effect on its business climate and economic growth rate.

Professor Jon Udell of the UW-Madison has done a periodic series of very comprehensive Wisconsin-specific surveys of the weight businesses place on different factors in making location decisions. His most recent studies were completed in 2000 and 2001. Professor Udell has concluded that tax levels and the tax mix play a significant role in affecting business location decisions. Specifically, his results indicate that businesses weigh the different factors they look at in approximately the following manner:

- Labor components (skills and education, worker attitudes, labor productivity and cost, labor-management relations) - 35%
- Government components (business taxes and personal taxes, government attitudes and regulations, government services) - 20%
- Community and geography components (quality of life, ties to area) - 20%
- Market and service components (proximity to markets, distribution costs, availability and cost of financing, cost of other business services) - 15%
- Other factors (energy and other utilities, parts and raw materials, availability and cost of production facilities and land) - 10%

Looking at specific factors within the broad overall categories, Professor Udell concluded that business tax structure and burden and personal tax structure were among the top eight factors affecting business location decisions. His periodic surveys have also established that, while Wisconsin gets high marks in areas such as quality of life and quality of people, the state gets very low marks in the areas of personal and business tax structure and burden.[13]

Other studies have reached the same conclusion. Ross DeVol, Director of Regional Economics for the Milken Institute, presented a report on Wisconsin's competitiveness to the Governor's Conference on Economic Development in February 2004. He listed tax rates, including state and local taxes and taxes on both labor and capital, as a significant factor affecting regional growth and noted that in particular Wisconsin's high ranking on personal income and property taxes makes us stand out.[14]

Clearly there are many factors that affect a state's economic growth rate in addition to tax structure and burden, including workforce skills and attitudes, the education system, capital availability, housing affordability, transportation, energy availability, crime rates, and overall quality of life, which includes environmental quality and recreational opportunities. While a low tax burden by itself will not lead to strong economic growth if many other factors are negative, an overly burdensome tax level will impede a state's economic growth, even if most other factors are positive.

One important point to remember is that the taxes directly paid by businesses are not the only taxes that affect economic development. Wisconsin's corporate income tax burden ranks in the middle of the states. Wisconsin has a lower than average sales tax burden, which means that the sales taxes that businesses pay on the equipment and supplies they purchase are lower than in other states.[15]

However, the income taxes and property taxes paid by individuals are also very important to businesses. The levels of these taxes often affect the location decisions that people make. This is especially true for the entrepreneurs and the highly mobile "knowledge workers" with high education and skill levels who look for business opportunities and employment in a national market, and who look at information about tax levels in making location decisions. It is easy for these people to obtain and understand information about take-home pay after taxes when they are comparing job offers or deciding where to locate their businesses, and it is easy for them to compare property tax levels for similar homes and businesses in different states.

Why Wisconsin Ranks High on Taxes

Why does Wisconsin rank high on taxes? A 2003 Wisconsin Policy Research Institute report by Todd Berry and Dale Knapp, *Why Wisconsin Has High Taxes*, concluded that it was primarily because of high spending levels, which accounted for 70% of the difference in taxes between Wisconsin and the national average. The study concluded that it was also due in part to a higher than average reliance on state taxes rather than fees in our revenue mix and in part to lower than average federal revenues, which together accounted for 30% of the difference between Wisconsin and the national average.[16]

We thus have a situation where Wisconsin has government spending levels that are higher than the national average, tax levels that are even farther above the national average (due to the fact that we rely somewhat more on taxes than on fees and federal revenues compared to the average state), and individual income and property taxes that are substantially and very noticeably higher than the national average. The unfortunate thing about this, from an economic competitiveness point of view, is that Wisconsin ranks farthest above the national average on the two revenue sources that are most noticeable to people, and that are most easily comparable to other states—the individual income and property taxes.

Can spending limits help address this situation? It is certainly true that if budgeted spending grows at a slower rate over time, then the tax burden will decline, all other factors being equal. Spending limits, along the lines of those suggested by the Expenditure Commission in 1986, could put the state on a path towards a spending level more in line with its peer states and a more competitive tax structure. While some progress has been made in recent years in reducing the individual income tax and property tax burden in Wisconsin, controlling our spending levels, especially if this was coupled with reductions in individual income and property taxes, would put Wisconsin in a much better competitive position.

Wisconsin's Boom and Bust Budget Cycles

Over the course of the past several decades, Wisconsin has experienced boom and bust budget cycles at the state level. Big spending increases throughout the 1970s were followed by wrenching cutbacks in spending and significant tax increases in the early 1980s. There was a period in the late 1980s, right after the Expenditure Commission issued its report and when the painful experience of the early 1980s was still fresh in people's minds, during which state spending increased at a moderate rate and the state avoided steep increases or major decreases in spending. However, as the economy boomed in the late 1990s, state spending increased more rapidly, which set the stage for another round of budget cutbacks in the 2001 and 2003 budgets after the nation went into a recession.

Wisconsin continues to have boom and bust budget cycles because, in the absence of comprehensive and meaningful guidelines, the tendency is to spend all or almost all of the revenue that comes in, which means that spending increases rapidly when the economy is booming and is then squeezed when economic growth declines and revenue growth falters. Most public policy analysts would agree that it is good policy to establish an overall framework to guide government spending decisions, which would put the state's spending trajectory on a more stable course. This is exactly what the Expenditure Commission recommended for Wisconsin almost twenty years ago.

WHAT SPENDING LIMITS SHOULD BE CONSIDERED?

If Wisconsin is going to adopt spending limits and budget guidelines as a means to improve the state's fiscal competitiveness and the budget process, what form should they take? In considering this issue, it is useful to look at the experiences of other states, to look at Wisconsin's experience with the spending limits that have been adopted in the state, and to look at the recent history of spending in Wisconsin to see what would have happened if different types of guidelines had been adopted in the past several decades.

As mentioned, twenty-seven states have some type of broad budget guidelines or spending or revenue limits, with four basing their limits on CPI plus population growth, two using a hybrid of CPI and personal income growth, sixteen basing their limits on factors relating to state personal income growth, and five basing their limits on formulas linking spending to a fixed percent of revenue available.

What are the pros and cons of the different approaches? Wisconsin could establish a goal of bringing state and local government spending in line with national averages, along the lines of the 1986 Expenditure Commission recommendations. Regional averages could also be used. This would provide a reference point outside Wisconsin to help judge what appropriate spending levels are.

Wisconsin could follow states such as Colorado and Washington that limit the rate of growth to the increase in the consumer price index or to CPI plus population growth. The rationale for a CPI-based measure is that the CPI is designed to measure the rate at which costs go up. This would keep current spending levels constant in real terms. It would mean that, over time, government spending subject to the controls would make up a declining share of personal income in Wisconsin, since personal income historically grows at a faster rate than CPI growth. One criticism of this approach is that the CPI is designed to be a measure of the costs faced by individual consumers and is not a good measure of cost increases for the items that governments purchase.

As another alternative, Wisconsin could follow states such as Michigan and Missouri that limit the rate of growth to the increase in per capita personal income or total state personal income, or could use some percentage of that increase. The rationale for a measure based on personal income growth is that this measures the resources people have to devote to spending, including spending on government services. It is also based on the idea that as people have more resources they want to purchase more goods and services, including government services. A measure based on personal income growth or a percentage of personal income growth would allow current spending levels to increase as income increases, but government spending would not take an ever-increasing share of people's incomes.

Another approach taken by some states such as Iowa is to limit allowable state spending in any fiscal year to a set percentage (e.g., 98% or 99%) of the available revenues in that year. This would have the advantages of forcing some reserves to be set aside each year, in addition to any reserves already on hand, and of not allowing ongoing spending levels to exceed ongoing revenue levels. However, while this would help address concerns about spending practices from the point of view of the budget process, it would not address concerns that spending and revenues have risen at a faster rate than the cost of living and people's incomes. Governments would still be able to spend most of what they take in, thus keeping spending tied to the cyclical ups and downs of revenues.

HOW DIFFERENT APPROACHES WOULD HAVE LIMITED SPENDING IN WISCONSIN

How much has government spending in Wisconsin increased in past years compared with the different options for guidelines? Various basic measures can be used to evaluate spending increases: CPI growth, personal income growth, and comparisons with national and regional averages, or variations of those measures.

In comparing these measures with the spending levels that have actually occurred, it is appropriate to compare aggregate state and local government spending increases to CPI plus population growth and to total personal income growth, since these are all measures of aggregate statewide government spending, cost increases, and resources. It is also appropriate to compare spending per capita or spending per pupil to CPI growth and per capita personal income growth, since these are all measures of government spending, cost increases, and resources on a per person basis. Data are available to make these comparisons at a national level between Wisconsin and other states through 2002. The starting point selected for these comparisons is 1986, the year of the Expenditure Commission report.

When looking at Wisconsin's spending and tax levels and rankings compared with national averages, it is best to use spending and taxes per $1000 of personal income, because this best relates spending to the resources of the citizens of Wisconsin. Also, it is best to look at state and local spending together, since state and local finances are highly intertwined in Wisconsin, with the state government raising substantial amounts of tax revenue, which are sent to local governments in the form of aid, and which are actually spent at the local level, not the state level.

Information from the Wisconsin Taxpayers Alliance and the U.S. Census Bureau has been used to review the history of government spending in Wisconsin since the 1986 Expenditure Commission report and to compare spending increases with key benchmark measures. First, looking at total state and local spending from 1986 to 2002, the increase in state and local spending for that period and the increases in key benchmarks were as follows:

CPI plus population growth	+ 87%
Total personal income	+ 141%
Total Wisconsin state and local spending	+ 161%

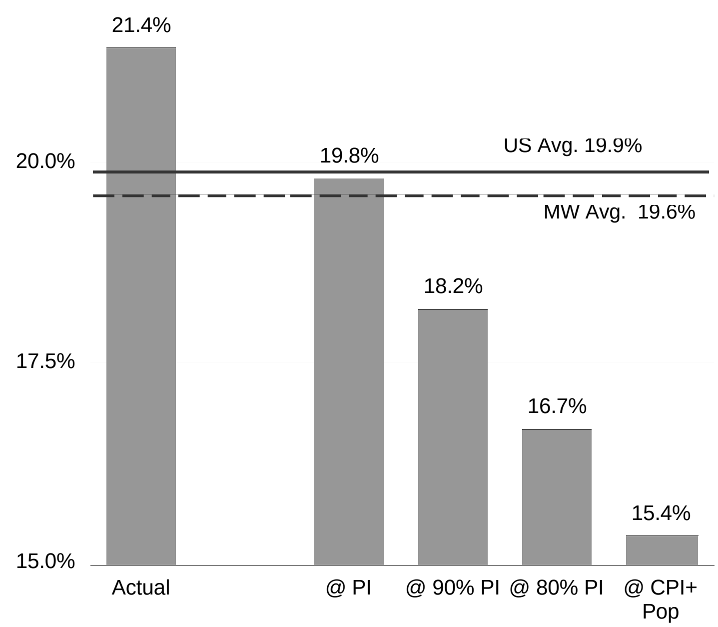
Total state and local spending has grown above the rate of growth of both benchmark measures.[17]

Wisconsin's state and local spending level as a percentage of state personal income in 2002 was 21.4%, compared with a national average of 19.9% and a Midwest average of 19.6%. If Wisconsin's state and local spending had grown at the rate of personal income growth since 1986, state and local spending as a percentage of personal income would have been 19.8% in 2002. If it had grown at the rate of CPI plus population growth, it would have been 15.4%.[18] (See Figure 3.)

Proposals have also been made to set spending limits at 90% or 80% of personal income growth. If 90% had been used, state and local spending as a percentage of personal income would have been 18.2% in 2002; if 80% had been used, it would have been 16.7%.

Looking at these alternatives in terms of dollars spent and annual growth rates, a measure based on personal income growth would have resulted in total state and local spending of $31.43 billion in 2002, or $2.58 billion (7.6%) less than the actual level of $34 billion. This would have represented an average annual growth rate of 5.67% per year from 1986 to 2002, compared with the 6.19% per year average annual growth rate that actually occurred.[19]

FIGURE 3 SPENDING LIMITS BASED ON PERSONAL INCOME GROWTH WOULD BRING WISCONSIN SPENDING IN LINE WITH NATIONAL AVERAGES



Total state-local spending as a percentage of personal income (PI) in 2002, with growth limited by various measures for 1986-2002 period

The personal income growth measure would have resulted in a moderately lower level of spending growth each year, with the cumulative result over a period of years being a noticeable reduction in the revenues needed from the state's taxpayers. Spending at this rate would have allowed Wisconsin to maintain vital government services, with service levels at or above those in neighboring states. Assuming all other things were equal, if most of the savings from the reduction in spending of approximately $2.58 billion had been concentrated on reducing taxes in the two areas in which Wisconsin is most out of line with the national averages, it would have meant that in 2002 there could have been a property tax reduction of approximately $1.25 billion (a reduction of approximately 19% in that year's property tax collections, taking Wisconsin to 102% of the national average from 127%) and an individual income tax reduction of approximately $1.25 billion (a reduction of approximately 25% in that year's income tax collections, taking Wisconsin to 101% of the national average from 134%).[20] Of course, different assumptions could be made about exactly what the spending savings would be and about how much of the spending savings would be devoted to individual income and property tax reductions, but the key point is that it would have been possible to make noticeable reductions in both of these tax areas.

A measure based on CPI plus population growth would have resulted in total state and local spending of $24.38 billion in 2002, or $9.62 billion (28.3%) less than the actual level. The CPI plus population growth measure would have resulted in a very large reduction in spending, with an equivalent reduction in taxes but also with a noticeable impact on government service levels.

It should be noted that actual spending growth would probably end up being somewhat higher than whatever measure is specified in the limits, because a number of referendums allowing spending to increase faster than the limits would be passed and because there would be some exclusions from the limits. Hence, limits based on a measure of 90% or 95% of personal income growth would likely result in an actual growth rate close to the rate of growth of personal income.

In addition to looking at total state and local government spending, we can look at spending by different types of government on a per capita or per pupil basis. For those purposes, the increases for the 1986 to 2002 period and the increases in key benchmarks were as follows:

Consumer price index	+ 64%
Per capita personal income	+ 107%
State GPR spending per capita	+ 102%
K-12 school spending per pupil	+ 125%
Municipal spending per capita	+ 94%
County spending per capita	+ 151%
Technical college spending per pupil	+ 122%

For the 1986 to 2002 period, state GPR spending and municipal spending overall increased faster than CPI growth but somewhat below per capita personal income growth. For K-12 school districts, counties, and Wisconsin Technical College System districts, spending increased faster than CPI growth and faster than per capita personal income growth.[21] (See Figure 4.)

Analyzing these numbers in further detail, several additional comparisons are important. State GPR spending can be divided into spending on local assistance, aids to individuals, and state operations. The amounts by which these have increased from 1986 to 2002 are as follows:

State GPR local assistance spending	+ 144%
State GPR aids to individuals spending	+ 94%
State GPR state operations spending	+ 131%

Over this period, total state GPR spending grew by 131%. This illustrates that local assistance spending is not only the largest part of the state's GPR budget (about 60%) but has been growing faster than the benchmark measures of CPI plus population growth and personal income growth, demonstrating how state and local finances in Wisconsin are intertwined.[22]

K-12 spending growth has been moderated by the passage of revenue limits in 1993, which first applied in the 1993-94 school year. Spending increases in the seven-year periods just before and just after the revenue limits took effect were as follows:

K-12 school spending per pupil, 1986-93	+ 53%
K-12 school spending per pupil, 1993-2000	+ 33%

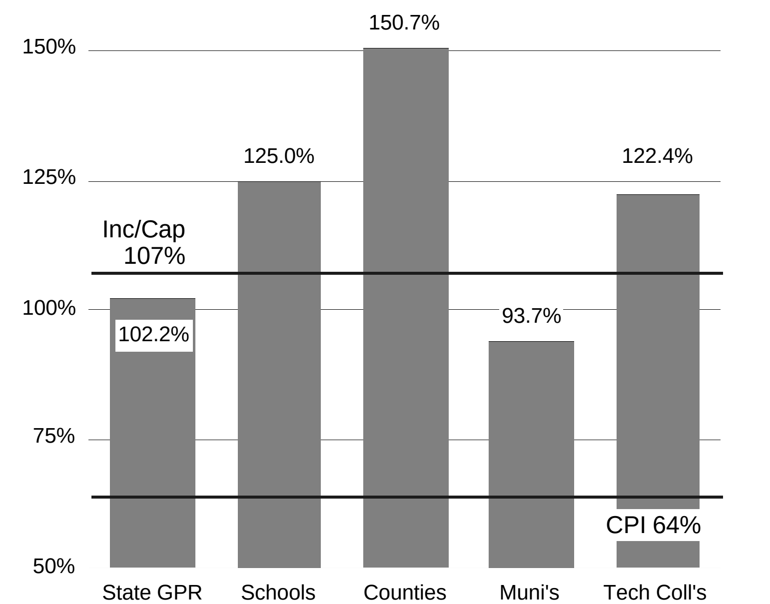
The 1986-93 increase was twenty-one points above the increase that would have occurred if spending had increased at the rate of CPI growth, and thirteen points over the rate of per capita personal income growth for this period. The 1993-2000 increase was fourteen points above the increase that would have occurred if spending had increased at the rate of CPI growth, but seven points under the rate of per capita personal income growth for this period.[23]

Municipal spending varies by type of municipal government. The increases on a per capita basis for the different types of municipal government from 1986 to 2002 were as follows:

Cities	+ 78%
Villages	+ 161%
Towns	+ 134%

One reason for the more moderate increase in per capita spending for cities is that for most of this time period most cities had voluntarily agreed to follow the ERP limits, limiting their spending to inflation plus a percentage of value growth due to new construction.[24]

FIGURE 4 SPENDING INCREASES IN WISCONSIN HAVE VARIED FOR DIFFERENT TYPES OF GOVERNMENT



Increases in per capita or per pupil spending by type of government, 1986-2002

The overall conclusion from this analysis is that total state and local government spending growth has outpaced income growth in Wisconsin over the period from 1986 to 2002. This conclusion is reinforced by a January 2004 study done by the Minneapolis Federal Reserve Bank that covered a longer period of time. It looked at real per capita average annual growth in state and local government spending from 1977 to 2000 and found that Wisconsin had a total per capita general fund spending increase of about 1.8% per year over that period, compared with real per capita income growth of about 1.4% per year. Of the six states in the Minneapolis Fed region (Michigan, Minnesota, Montana, North Dakota, South Dakota, and Wisconsin), Wisconsin experienced the fastest overall growth in spending in relation to income.[25]

Several conclusions emerge from looking at these trends:

- First of all, if comprehensive spending limits had been in place using either CPI or personal income growth as the basic limit for spending increases, overall state and local spending in Wisconsin would have increased at a lower rate since the mid-1980s.
- Second, if personal income growth had been used as the measure for the limits, state and local spending in Wisconsin would be roughly at the national and regional averages today.
- Third, where comprehensive and meaningful limits have been put in place, they have had an effect on spending growth. K-12 school spending increases have been moderated by the revenue limits that were put in place in 1993. Spending per pupil has increased slightly less than the rate of per capita personal income growth since the revenue limits were put in place. (This is faster than the inflation measure specified in the revenue limits because of the passage of many local referendums allowing spending to rise faster than the limits.) Also, spending increases for cities have been moderate, in part due to the ERP limits that were put in place in 1991.
- Finally, adopting limits tied to personal income growth would not devastate government services. If Wisconsin had adopted a limit tied to personal income growth, government spending in Wisconsin now would be roughly at the national and regional averages. In the areas in which Wisconsin has had meaningful limits, performance indicators are positive overall, although there are certainly calls for modifications to the limits. For example, in the K-12 area, even with limits in place, as of 2001 Wisconsin ranked 12th nationwide for per pupil expenditures, and Wisconsin students had excellent test results compared with students in other states.[26]

HOW SHOULD LIMITS BE ESTABLISHED?

Budget guidelines can be established in several different ways. A few states, such as Colorado, have very detailed constitutional language, which is essentially self-executing, meaning that little in the way of additional statutory language is needed to implement the guidelines. Other states have broad constitutional language to establish the guidelines in concept, accompanied by specific language adopted by the Legislature in the state statutes to implement the guidelines. A number of states have statutory language only. It is also possible to establish guidelines through less formal measures, such as by passing a budget resolution during each session of the Legislature.

The advantage of having detailed constitutional language is that future legislatures and Governors could not easily change or circumvent the limits. The disadvantage is that it would be very difficult and time-consuming to modify the limits to deal with changing conditions. A constitutional amendment has the advantage of being difficult to change, but the flip side of this is that it can become a straitjacket.

The advantage of having broad constitutional language with the details covered in subsequent statutory language, or of having only statutory language, which are the more common approaches, is that adjustments can more easily be made to respond to changing conditions and unanticipated issues. However, this also means that the limits could be varied more easily by future governing bodies.

Viewed in this context, the best way to combine the discipline of a constitutional amendment with some flexibility is to have broad general constitutional language with the details of implementation specified in the statutes.

ADDITIONAL POINTS TO CONSIDER

One central issue to be addressed in the debate about spending limits is whether it is reasonable to take the position that state and local governments should have some limits or some form of budget guidelines. Some critics of spending limit proposals seem to feel that there should be no limits or guidelines at all. But without guidelines, all spending decisions will be made on an ad hoc basis. Without limits, the tendency is to spend whatever revenue comes in during good economic times, and then go through painful cuts during the downward phase of the economic cycle.

While there certainly can and should be discussion about what limits should be adopted, and how they should be implemented, it seems reasonable to take the position that there should be advance thought given to what a reasonable spending level is. The position of the Expenditure Commission was clear: The citizens of the state should make a conscious choice about how much of their resources should be devoted to government.

Another issue that needs to be considered is whether limits are inconsistent with representative government. Philosophically, limits are not an attack on or a repudiation of representative democracy. They represent a collective decision made by the people and their representatives to put overall parameters in place to guide spending decisions, similar to the balanced budget requirement in the state constitution. They fit in with the checks and balances that are part of our system of government, providing a broad overall agreed-upon restraint on day-to-day legislative action. They represent a recognition that, without guidelines or parameters for making decisions, human nature and the nature of the political process result in individual decisions being made without reference to their overall cumulative effect.

Another point to keep in mind is that whatever limits might be adopted, spending levels will change over time, not overnight. The Wisconsin Expenditure Commission recommended that a six-year glide path be followed that would allow for moderate annual spending increases until the recommended goal of spending at the national average level was reached. Adopting limits means choosing a path that will result in a more steady rate of spending change and the establishment of a level of spending and taxing more in line with other states over time. Those who say that limits would immediately lead to huge service cutbacks overlook this point.

This leads to another point of interest to those who are concerned about abrupt spending cutbacks: Adopting limits can actually help avoid severe cutbacks. Cutting spending by large amounts in a short time period is agonizing. It is preferable to follow a policy that provides for reasonable increases over time, while building up a reserve fund that can be used during economic downturns. This approach would help the state to avoid spending booms followed by drastic cutbacks.

Any limits that are adopted will be guidelines, not hard and fast rules. The public will be able to spend more than the level specified in the limits by voting to do so in referendums. The Legislature, governor, and local governing bodies can always decide to spend less than the level specified in the limits.

Any constitutional spending limit amendment that is passed should be carefully drafted so that it is workable in practice, and it is obviously important for the statutory language that implements an amendment to be drafted in a workable manner as well. For example, the language should be drafted in a way that does not make it difficult or impossible for local governments to issue debt in a responsible fashion, and in a way that makes adjustments for new construction so that economic development projects are not discouraged.

Finally, a very important point is that today's world is extremely competitive, and no state can afford to neglect its competitive position in relation to other states. Some critics of limits say that they fear having government service levels in Wisconsin that are far below those of other states, properly expressing concern about the competitive implications of low service levels. It is often said that Wisconsin should not reduce its spending or government service levels to those of states such as Alabama or Mississippi. However, spending limits tied to personal income growth would bring our spending levels over time in line with those of the other Midwest states, which provide a very adequate level of government services in the eyes of most people. Reasonable limits would not have apocalyptic effects on Wisconsin's quality of life.

In terms of comparisons with other states, most Wisconsinites would not want to see the state rank in the bottom ten states in such areas as education, transportation, parks, or general quality of life. By the same token, it is undesirable to have the state's tax burden rank in the top ten states, as it does now. It is problematic for a state to be an outlier as a high-tax state or a low-service state. People want to receive decent government services, but they also want those services to be affordable.

The challenge for Wisconsin is to devise policies that will moderate the state's tax levels while preserving the state's quality of life. Wisconsin needs to position itself as a state with excellent services and moderate taxes. Reasonable spending limits tied to personal income growth would improve Wisconsin's comparative tax burden while allowing the state to provide the services that people want.

CONCLUSION

The overarching goal of the bipartisan Wisconsin Expenditure Commission, articulated after an unprecedented review of what a good spending philosophy for Wisconsin should be almost two decades ago, was to close the gap between Wisconsin's spending levels and the ability of Wisconsin's citizens to pay for spending. A companion goal was to improve the state budget process. The commission strongly recommended that the state adopt spending limits as a way to achieve these goals.

While some people hope that spending can be adequately controlled through the existing process, experience has shown that this has not been the case. If people are content with Wisconsin having spending and tax levels well above the national averages, and are willing to tolerate boom and bust budget cycles, then the status quo is acceptable. However, in order to bring Wisconsin's spending levels in line with national averages, which would allow the state to provide adequate government services without a highly burdensome level of taxes, limits tied to personal income growth should be adopted.

Spending limits would help improve the budget process and reduce Wisconsin's tax burden by providing a reasonable framework for spending decisions. There are several approaches that can be taken to adopting guidelines (detailed constitutional amendment, general constitutional amendment accompanied by detailed statutory language, statutory language alone, or budget resolution), and a number of measures that can be used (personal income growth, 90% or 95% of personal income growth, CPI increases, national average spending levels). There are also many details that need to be considered when specific implementing language is drafted. The important thing is for some action to be taken to establish meaningful guidelines.

Looking at Wisconsin's recent history, if the state had followed budget guidelines tied to personal income growth, the state's overall state and local spending level would now be lower and the state's tax burden would now be more competitive. Wisconsin's spending would be roughly at the national and Midwest averages, which the Expenditure Commission thought provided reasonable benchmarks. This would have required some hard decisions about spending priorities over the years, but spending at these levels would certainly have allowed state and local governments to provide quality public services in Wisconsin.

Without any action to set clear spending goals, Wisconsin's spending and tax levels are likely to remain high and the state's boom and bust budget patterns are likely to continue. Adopting comprehensive, reasonable, and workable spending limits and budget guidelines would improve Wisconsin's fiscal competitiveness and the state's budget process.

Notes

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19. Calculations based on U.S. Census Bureau data, 2002, and Wisconsin Taxpayers Alliance information.
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About the Institute

The **Wisconsin Policy Research Institute** is a not-for-profit institute established to study public-policy issues affecting the state of Wisconsin.

Under the new federalism, government policy increasingly is made at the state and local levels. These public-policy decisions affect the life of every citizen in the state. Our goal is to provide nonpartisan research on key issues affecting Wisconsinites, so that their elected representatives can make informed decisions to improve the quality of life and future of the state.

Our major priority is to increase the accountability of Wisconsin's government. State and local governments must be responsive to the citizenry, both in terms of the programs they devise and the tax money they spend. Accountability should apply in every area to which the state devotes the public's funds.

The Institute's agenda encompasses the following issues: education, welfare and social services, criminal justice, taxes and spending, and economic development.

We believe that the views of the citizens of Wisconsin should guide the decisions of government officials. To help accomplish this, we also conduct regular public-opinion polls that are designed to inform public officials about how the citizenry views major statewide issues. These polls are disseminated through the media and are made available to the general public and the legislative and executive branches of state government. It is essential that elected officials remember that all of the programs they create and all of the money they spend comes from the citizens of Wisconsin and is made available through their taxes. Public policy should reflect the real needs and concerns of all of the citizens of the state and not those of specific special-interest groups.