



STEVENS POINT AREA 2004 ECONOMIC INDICATORS

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Special Report: Wisconsin's Taxes: How High and Why?

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National and Regional Outlook

Real Gross Domestic Product continues to expand at a robust rate. From first quarter 2003 to first quarter 2004, real GDP expanded by a very healthy 4.9 percent. Moreover, on an annualized basis real GDP increased by 4.2 percent during the first three months of 2004. Similarly, industrial production is thought to have increased by at a 3.3 percent rate in the year over comparison. This of course is another indication to analysts that the economy has achieved a degree of sustainable forward momentum.

Household spending, which accounts for two-thirds of all expenditures in the economy, has continued to be a source of strength for the economic expansion. Low interest rates, refinancing of mortgages, and tax rate reductions have all helped to fuel consumer spending. Moreover, capital spending by business firms is finally starting to rise which adds to the economy's momentum. Government spending has also contributed a great deal of fiscal stimulus to the economy. Additionally, over the past couple of years the dollar has depreciated about 15 percent against other major trading currencies. This should help to increase net exports and add further stimulus to the expansion. Monetary policy has been very accommodative over the past number of years. While recently rising, interest rates from a historical standpoint remain at favorable levels. For example, the federal funds rate now stands at one percent. This key borrowing rate is well below the range that is considered to be neutral. Most economists believe that a federal funds rate of approximately three and half percent would represent a neutral monetary policy stance on the part of the Federal Reserve. A federal funds rate below this level encourages the expansion of the economy, and rates above this level are thought to suppress economic activity.

Besides the figures on GDP growth, there is other evidence to suggest that the current expansion has taken hold and is sustainable. Employment numbers for the nation suggest that in March about 310,000 jobs were added to the country's payrolls. During January thru March about 510,000 jobs were added to the country's payroll. It also appears that the growth in jobs is broad based and occurred across most sectors of the economy. Even manufacturing employment has shown some tentative signs of life. However, one must remember that the manufacturing sector was hit hard by the last recession and was the main reason that the current recovery was called the jobless recovery. At the time of this report manufacturing payrolls are about three million jobs below the pre-recession figure. This represents a 17 percent decline over the last four years.

Federal Reserve Board chairman Alan Greenspan, in recent testimony given to the Joint Economic Committee of the U.S. Senate, believes that the economic recovery is

on firm ground. For reasons already alluded to, the focus of Federal Reserve policy will gradually move toward maintaining price level stability and less concern will be directed to the sustainable nature of the current expansion. Greenspan indicated that productivity gains enjoyed over the last several years are not likely to be sustainable. Thus, it is likely that business firms will have to increase payrolls sometime in the future because further productivity gains from existing workers are not likely to meet demand. In Greenspan's opinion, business firms will have two choices: absorb higher labor costs by cutting profit margins, or raise prices.

Given the slack that still exists in the economy and foreign competition it is unlikely that labor cost increases can be passed on now in the form of higher prices, so inflation will not become an immediate problem. In addition, recent sharp increases in several price indices are most likely short-term in nature, and the result of volatility in the energy and food sectors. However, in the longer term the potential for persistent price level instability is becoming a much greater threat to the nation's prosperity because aggregate demand in the economy appears to be so very strong. This is evidenced by rising commodity prices in steel, copper, and lumber. Thus, there is more than an even chance the Federal Reserve will tighten credit conditions sometime in the near future in an attempt to dampen demand and to prevent the economy from over heating. Therefore, look for the Federal Reserve to embark upon a series or program of gradually raising interest rates. By using a gradualist approach the Federal Reserve will attempt to diminish the threat of inflation without placing the current expansion at risk. It will be most interesting to see if the Federal Reserve can successfully navigate this course.

**TABLE 1:
NATIONAL ECONOMIC STATISTICS**

	2003 First Quarter	2004 First Quarter	Percent Change
Nominal Gross Domestic Product (Billions)	\$10,735.8	\$11,447.8	+6.6
Real Gross Domestic Product (Billions of 2000 \$)	\$10,210.4	\$10,708.6	+4.9
Industrial Production (1997 = 100)	110.8	114.5	+3.3
Three Month U.S.Treasury Bill Rate	1.10%	0.95%	-14.1
Consumer Price Index (1982-84 = 100)	184.2	187.4	+1.7

Central Wisconsin

The results of this quarter present a mixed picture of the economy. Generally speaking unemployment rates are lower, total employment is higher, sales tax collections are higher, and business sentiment is better than a year ago. However, industrial sector employment appears to have contracted from last year. This estimate is based on a survey of business firm data.

The unemployment rate for each reporting area was lower this year when compared to the year before (Table 2). The Marathon, Portage, and Wood county unemployment rates were respectively 5.1, 5.9, and 7.5 percent. Meanwhile, Wisconsin registered a 6.2 percent rate of unemployment and the U.S. posted a 6.0 percent mark.

The total employment figures in Table 3 are based on a survey of households. All areas reported a gain in employment. Marathon, Portage, and Wood county payrolls expanded by 3.3, 1.5, and 1.6 percent respectively. The state's employment rose from 2.8 million to 2.9 million, or by 2.3 percent. The overall rate for the nation was 0.7 percent. Payrolls at the national level rose from 136.8 million to 137.7 million over the past twelve months.

Table 4, in contrast to Table 3, uses a survey of business firms to derive the employment estimates. Central Wisconsin employment is estimated to have decreased from 145.9 thousand to 145.3 thousand, or a decline of 0.4 percent. Construction and natural resources, financial activities, and educational and health services were the only sectors to post a gain from a year ago.

Sales tax collections are another indicator of the pace of economic activity in an area (Table 5). Portage county sales tax collections rose from \$1.02 million to \$1.10 million, or by an estimated 8 percent from last year. Likewise Marathon county sales tax collections expanded from \$2.42 million to \$2.53 million over the past year. Thus both measures suggest that an amount of growth has taken place in the retail end of the local economies.

The CWERB survey of regional business leaders shows that this group was encouraged by recent changes in national economic conditions (Table 6). However, the sentiment of this group was much more reserved when it came to assessing recent local economic conditions. The good news is that this survey group believes that the national economy, local conditions, and the activity level in their particular industry will improve in the quarter ahead. This bodes very well for the Central Wisconsin economy.

**TABLE 2:
UNEMPLOYMENT IN CENTRAL WISCONSIN**

	Unemployment Rate March 2003	Unemployment Rate March 2004	Percent Change
Portage	6.8%	5.9%	-12.6
Marathon	6.8%	5.1%	-24.9
Wood	8.1%	7.5%	-7.7
Central Wisconsin	7.1%	5.9%	-16.9
Wisconsin	6.9%	6.2%	-10.2
United States	6.2%	6.0%	-2.5

**TABLE 3:
EMPLOYMENT IN CENTRAL WISCONSIN**

	Total Employment March 2003 (Thousands)	Total Employment March 2004 (Thousands)	Percent Change
Portage	36.8	37.3	+1.5
Marathon	71.6	74.0	+3.3
Wood	38.3	38.9	+1.6
Central Wisconsin	146.7	150.3	+2.4
Wisconsin	2,837.0	2,901.7	+2.3

United States	136,783	137,691	+0.7
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**TABLE 4:
CENTRAL WISCONSIN EMPLOYMENT CHANGE BY SECTOR**

	Employment March 2003 (Thousands)	Employment March 2004 (Thousands)	Percent Change
Total Nonfarm	145.9	145.3	-0.4
Total Private	126.1	125.6	-0.4
Construction & Natural Resources	4.5	4.9	+8.9
Manufacturing	31.0	29.5	-4.8
Trade	24.9	24.9	0
Transportation & Utilities	7.9	7.9	0
Financial Activities	9.4	10.0	+6.4
Education & Health Services	20.7	21.6	+4.3
Leisure & Hospitality	11.0	10.8	-1.8
Information & Business Services	16.7	16.1	-3.6
Total Government	19.7	19.6	-0.5

**TABLE 5:
COUNTY SALES TAX DISTRIBUTION**

	2003 Sales Tax First Quarter (Thousands)	2004 Sales Tax First Quarter (Thousands)	Percent Change

Portage County	\$1,015.2	\$1,096.2	+8.0
Marathon County	\$2,421.9	\$2,531.8	+4.5

**TABLE 6:
BUSINESS CONFIDENCE IN CENTRAL WISCONSIN**

	Index Value	
	December 2003	March 2004
Recent Change in National Economic Conditions	72	70
Recent Change in Local Economic Conditions	57	56
Expected Change in National Economic Conditions	74	69
Expected Change in Local Economic Conditions	65	64
Expected Change in Industry Conditions	63	70

100 = Substantially Better

50 = Same

0 = Substantially Worse

The Greater Stevens Point – Plover Area

Highlights of this quarter's report are as follows: The unemployment rate in Portage county has dropped to 5.9 percent. Total employment, based on a survey of households, increased by 1.5 percent. Employment estimates based on a survey of employers increased by 0.3 percent. Merchants are more pessimistic about retail conditions than a year ago. Help wanted advertising fell from last year's level. Public assistance claims have fallen for new applications, but total caseload is running well ahead of last year. Lastly, unemployment claims have declined for both new and total categories.

Portage county industrial sector employment is presented in Table 7. These data are generated from a survey of business firms. Total nonfarm employment increased by a small 0.3 percent from last year. Sectors experiencing growth were construction and natural resources, trade, transportation and utilities, education and health services, and information and business services. Sectors contracting from a year ago include manufacturing, financial activities, leisure and hospitality, and government payrolls.

Retailer confidence for the Stevens Point-Plover Area is listed in Table 8. In general the panel shows that total sales compared to a year ago are lower. Store traffic, not surprisingly, was also assessed as being off the pace from a year ago. When this group was queried about the future they felt that store traffic and sales would be only modestly better than the previous twelve months. These results contradict the sales tax collection data. Often times fluctuations in the recording and tabulations of these numbers by the state makes them less comparable to the retailer survey.

Help wanted advertising is a very useful tool to assess conditions in a local labor market (Table 9). The greater Stevens Point area index has declined from 89 in 2003 to 78 this year. Meanwhile the U.S. index was virtually unchanged from a year ago. This variable signals that the overall labor market situation is weaker than what one would normally expect this far into an economic expansion.

Public assistance claims for Portage county are in Table 10. New applications on a weekly average basis fell from 298 to 231 a 22.6 percent decline. Total caseload meanwhile rose from 3,022 to 4,220, or by nearly 40 percent over the year. The total caseload figure shows the general rise in public assistance that transpired over the past twelve months. Another measure of family financial distress comes from unemployment claim data (Table 11). New claims on a weekly average basis

declined from 285 to 195, or by 31.4 percent over the past twelve months. In addition total claims fell from 2,235 to 1,967, or by 12.0 percent. Thus both measures of unemployment claims are below last year's levels.

Residential construction in the area is presented in Table 12. The number of residential permits issued rose from 24 to 26 over the past year. However, the estimated value of new construction fell by 0.8 percent. The number of housing units remained unchanged from last year, staying at 27 units. The number of residential alteration permits increased by 10.1 percent. However, there was a sharp drop in the estimated value of the alteration activity. The value fell from \$1.04 million to \$705.4 thousand, or a decline of 32 percent.

Table 13 presents nonresidential construction in the area. This data is given without percentage changes because business investment is often times a very volatile activity that is subject to great deal of variability. The number of new permits issued was three and their estimated value was \$280 thousand. Meanwhile business alteration activity reached 33 permits and these were estimated to have a value of \$2.9 million.

**TABLE 7:
PORTAGE COUNTY EMPLOYMENT CHANGE BY SECTOR**

	Employment March 2003 (Thousands)	Employment March 2004 (Thousands)	Percent Change
Total Nonfarm	32.8	32.9	+0.3
Total Private	26.8	26.9	+0.4
Construction & Natural Resources	0.8	0.9	+12.5
Manufacturing	5.4	4.5	-16.7
Trade	4.5	5.3	+17.8
Transportation & Utilities	1.8	1.9	+5.6
Financial Activities	4.0	3.9	-2.5
Education & Health Services	3.0	3.3	+10.0
Leisure & Hospitality	3.6	3.3	-8.3
Information & Business Services	3.7	3.9	+5.4
Total Government	6.0	5.9	-1.7

**TABLE 8:
RETAILER CONFIDENCE IN STEVENS POINT-PLOVER AREA**

	Index Value	
	December 2003	March 2004
Total Sales Compared to Previous Year	57	44
Store Traffic Compared to Previous Year	48	46
Expected Sales Three Months From Now	61	54
Expected Store Traffic Three Months From Now	59	54
100 = Substantially Better 50 = Same 0 = Substantially Worse		

**TABLE 9:
HELP WANTED ADVERTISING IN PORTAGE COUNTY**

	Index Value	
	2003	2004
Stevens Point (March) (1980 = 100)	89	78
U.S. (February) (1987 = 100)	41	40

**TABLE 10:
PUBLIC ASSISTANCE CLAIMS IN PORTAGE COUNTY**

	2003 First Quarter (Monthly Avg.)	2004 First Quarter (Monthly Avg.)	Percent Change
New Applications	298	231	-22.6
Total Caseload	3,022	4,220	+39.6

**TABLE 11:
UNEMPLOYMENT CLAIMS IN PORTAGE COUNTY**

	2003 First Quarter (Weekly Avg.)	2004 First Quarter (Weekly Avg.)	Percent Change
New Claims	285	195	-31.4
Total Claims	2235	1967	-12.0

**TABLE 12:
RESIDENTIAL CONSTRUCTION IN STEVENS POINT-PLOVER AREA***

	2003 First Quarter	2004 First Quarter	Percent Change
Residential Permits Issued	24	26	+8.3
Estimated Value of New Homes	\$4,233.7 (thousands)	\$4,200.0 (thousands)	-0.8
Number of Housing Units	27	27	0
Residential Alteration Permits Issued	99	109	+10.1
Estimated Value of Alterations	\$1,037.4 (thousands)	\$705.4 (thousands)	-32.0

*Includes Stevens Point, Village of Plover, and the Towns of Hull, Stockton, Sharon, and Plover.

**TABLE 13:
NONRESIDENTIAL CONSTRUCTION IN STEVENS POINT-PLOVER AREA***

	2003 First Quarter	2004 First Quarter
Number of Permits Issued	3	3
Estimated Value of New Structures	\$418.7 (thousands)	\$280.0 (thousands)
Number of Business Alteration Permits	30	33
Estimated Value of Business Alterations	\$255.7 (thousands)	\$2,935.6 (thousands)

*Includes Stevens Point, Village of Plover, and the Towns of Hull, Stockton, Sharon, and Plover.

Wisconsin's Taxes: How High and Why?

By Todd A. Berry, President
Wisconsin Taxpayers Alliance

Natives know—and newcomers discover—that there is something different about Wisconsin. The work ethic, the commitment to education and the belief in “local control” stand out.

So do the many ethnic and religious traditions. Mix Yankee founders and northern European immigrants; combine Protestant reformers and a strong Roman Catholic presence; add the labor activism of the industrial era to agrarian roots; douse liberally with the “Social Gospel,” the Wisconsin Idea and Progressive-era legislation . . . and you have Wisconsin’s unusual brand of politics and government—and the roots of the Badger state’s tax status today.

Wisconsin has not always been a high-tax state. As late as 1961, state and local taxes here ranked 18th highest in the nation. That changed in 1963 when the full effect of sales and income tax increases enacted by the 1961 state legislature were felt. By 1964, the Badger state ranked first.

Since then, Wisconsin has left the ranks of the top-ten “tax elite” only twice, and that was in 1968 and 1980 when a combination of tax cuts and surging personal incomes pushed Wisconsin to 11th place. In 24 of the 38 years studied since 1962, the Badger State has been among the top five most-taxed states, including every year since 1991.

Many reasons are given for Wisconsin’s high taxes. “State and local governments spend too much” is one. “The state does not get its share of federal money” is another. Both contribute to Wisconsin’s high-tax status, but they tell only part of the story. Surprisingly, despite a history of high taxes, there has been no comprehensive attempt to understand why.

This essay summarizes a recent in-depth study by the Wisconsin Taxpayers Alliance (WISTAX) that fills that gap, providing the first thorough, quantitative explanation of why our taxes are high.

How High?

In 1999-2000, our combined state and local taxes claimed 12.89% of personal income, according to the most recent U.S. Census Bureau figures. This placed the state fourth in the nation behind New York (14.10%), Maine (13.91%) and Alaska (13.16%). The national average was 11.21%. Unless stated otherwise, all Census information used in this study is from fiscal 2000.

The 1.68 percentage point difference (12.89-11.21) in tax burdens means that Wisconsin’s state and local tax collections were \$2.4 billion more in 2000 than if they

had been at the national average.* It is this \$2.4-billion difference that this paper attempts to quantify.

There are several explanations for the difference. First, Wisconsin spends more than average, which means government revenues, including taxes, have to be above national norms. Some of this additional spending is due to higher spending on services that state and local governments typically provide, and some is due to Wisconsin governments providing services that private entities provide in other states. In this report, no attempt is made to distinguish between these two sources of increased expenditures. Second, Wisconsin funds its spending differently than the nation. The state relies to a greater degree on taxes and less on fees and charges, or other revenue sources.

Why?

In the WISTAX study this paper reviews two different approaches used to estimate the impact of various revenue and spending factors on our tax burden. One was “arithmetic,” the other econometric. That the two different approaches yielded similar results bolsters the validity of the findings.

Here, we look only at the first approach which looks individually at the deviations between Wisconsin and the U.S. average in revenue mix and spending. We use these differences to estimate the additional tax burden that can be attributed to a particular factor; for example, lower state fees or higher education spending.

Revenues

Let’s begin with the revenue side of the equation. State and local general revenues consist of four revenue sources—taxes, federal monies, miscellaneous revenues (interest income, special assessments and property sales are examples), and fees and charges. This last source includes fees and charges both in and out of higher education, with the former comprised of tuition and fees collected by public higher-education institutions. Because total dollars from higher-education fees depend not only on the size of the fee, but also on the size of higher education system (more students means more total fee revenues), these fees are left until later, and examined in conjunction with higher education spending.

* Multiplying the 11.21% national rate by Wisconsin’s total personal income yields a tax burden of \$16.13 billion, which is \$2.42 billion less than the state’s actual tax collections of \$18.55 billion.

Table 1. Wisconsin Revenues, Taxes Above Average
Wisconsin, U.S. Revenues Per Capita and Share of Income, 1999-2000

	Amt. In	% of Income		Per Capita	
	Billions				
	Wis.	Wis.	U.S.*	Wis.	U.S.*
General Revenues	\$30,572	21.25%	19.81%	\$5,699	\$5,477
Taxes	\$18,547	12.89%	11.21%	\$3,458	\$3,100
Federal Revenues	\$5,059	3.52%	3.75%	\$943	\$1,037
Miscellaneous Gen'l Rev.	\$2,658	1.85%	1.97%	\$495	\$546
Non-Higher Educ. Fees	\$2,920	2.03%	2.16%	\$544	\$598
Higher Education Fees	\$1,389	0.97%	0.71%	\$259	\$196

Source: U.S. Census Bureau State and Local Finances, 1999-2000

**Calculated as U.S. revenue total divided by U.S. total income*

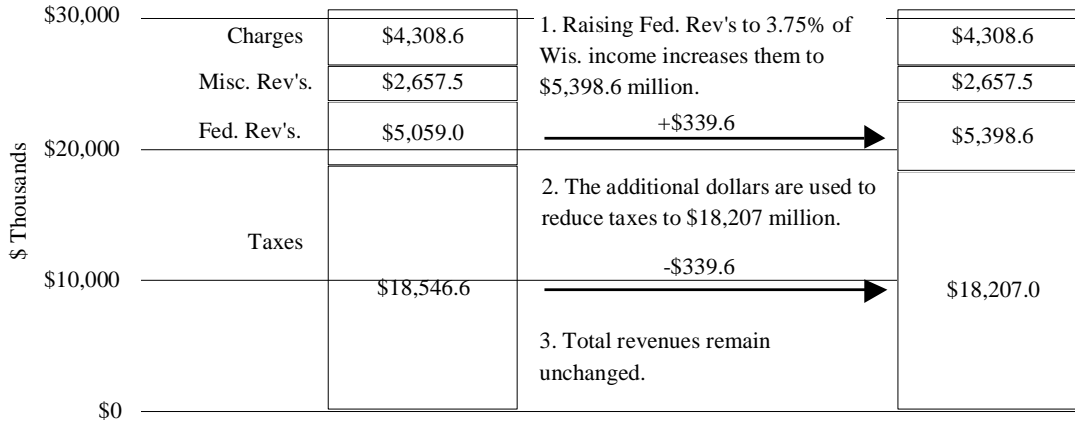
Table 1 shows how Wisconsin's revenues differ from national averages. As a share of personal income and per capita, Wisconsin has higher taxes, but lower federal revenues, miscellaneous revenues and non-higher education fees. In Wisconsin, taxes were 60.7% of general revenues, compared to 56.6% nationally.

Federal Revenues and Taxes. Wisconsin received \$5.1 billion in federal revenues in 2000, or 3.52% of state personal income and 16th lowest in the nation on a percent-of-income basis. Nationally, federal monies to state and local governments averaged 3.75% of U.S. personal income. If Wisconsin had received an "average" amount of federal revenues—equal to 3.75% of state income—it would have had an additional \$339.6 million, increasing that revenue category to \$5.4 billion. Figure 1 graphically displays the impact of this hypothetical change. Assuming unchanged state and local spending, those dollars could have reduced the state's tax burden by that same amount, from \$18.547 billion to \$18.207 billion.

It is important to recognize in Figure 1 that, since spending is assumed to remain unchanged, total revenues also are unchanged. The hypothetical increase in federal revenues serves as a dollar-for-dollar offset of taxes.

As a percent of income, Wisconsin's tax burden would have fallen from 12.89% of income to 12.66%. The \$339.6 million difference represents 14.1% of the \$2.4 billion difference in Wisconsin and U.S. tax burdens.

**Figure 1. How Increased Federal Money Could Affect Taxes
Wisconsin's General Revenues**



Miscellaneous Revenues. A second, smaller source of general revenues is miscellaneous revenues, such as interest earnings, special assessments, property sales and “other general revenues.” In 2000, Wisconsin’s state and local governments collected \$2.7 billion in miscellaneous revenues, or 1.85% of personal income. Nationally, miscellaneous revenues were slightly higher at 1.97% of personal income. Wisconsin had less interest, property-sale and “other general” revenues, but more special assessments.

An increase in miscellaneous revenues to the national average (1.97% of income) would have generated an additional \$181.7 million that could have been used to reduce taxes. That amount represents approximately 7.5% of the difference between the state’s tax burden and the nation’s.

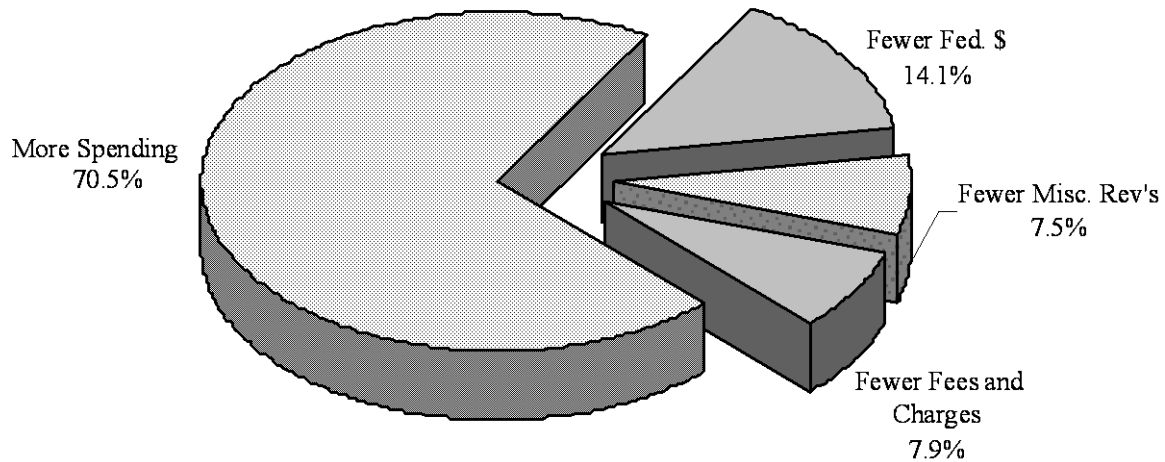
Fees and Charges. State and local governments also charge user fees for various services they provide. These fees range from automobile license fees to campground fees to charges for copying documents. In 2000, Wisconsin’s state and local governments collected \$2.9 billion in fees and charges outside of higher education. That total represented 2.03% of state personal income. Many other states use fees and charges to a greater extent than Wisconsin. Nationally, these averaged 2.16% of personal income.

If the Badger State had used fees and charges to the same extent as the U.S., state and local governments would have raised an additional \$190.3 million. Assuming spending remained unchanged, those dollars would have reduced state and local taxes by that same amount. Lower fees and charges outside of higher education accounted for 7.9% of the tax gap between the U.S. and Wisconsin.

Taken together, Wisconsin’s greater reliance on taxes, rather than on: a) federal dollars, b) miscellaneous revenues, and c) fees and charges, accounted for \$711.6 million, or 29.5% of Wisconsin’s higher tax burden (See Figure 2).

Figure 2. Why is Wisconsin a High-Tax State?

Estimates From Arithmetic Disaggregation of Tax Burden



Spending

If less than 30% of the difference between Wisconsin's tax burden and the national average is due to revenue-mix differences, then more than 70% must result from higher spending here relative to the nation. As mentioned previously, this could arise from spending more on services typically provided by government, or from providing services other state and local governments may not provide.

In fiscal 2000, Wisconsin's direct general expenditures were 21.4% of personal income, or more than two percentage points higher than the national average of 19.3%. Per capita spending here totaled \$5,735, 7.4% more than the national average of \$5,334. Table 2 compares Wisconsin spending to national averages.

Table 2. Wisconsin Spending Above National Average
Wisconsin and U.S. Government Spending, 1999-2000

	Amt. In	% of Income		Per Capita	
	Billions				
	Wis.	Wis.	U.S.*	Wis.	U.S.*
Direct general expenditure	\$30,762	21.4%	19.3%	\$5,735	\$5,340
Elementary & Secondary	\$7,793	5.4%	4.7%	\$1,453	\$1,298
Higher Education	\$3,228	2.2%	1.7%	\$602	\$477
Public Welfare	\$4,470	3.1%	3.0%	\$833	\$829
Health/Hospitals	\$1,839	1.3%	1.6%	\$343	\$452
Highways	\$2,711	1.9%	1.3%	\$505	\$360
Police/Fire	\$1,582	1.1%	1.0%	\$295	\$284
Corrections	\$1,030	0.7%	0.6%	\$192	\$173
Parks/Nat. Resources	\$983	0.7%	0.6%	\$183	\$161
Administration	\$1,479	1.0%	1.0%	\$276	\$290
Int. on Debt	\$1,363	0.9%	0.9%	\$254	\$248
Other Spending	\$4,286	3.0%	2.8%	\$799	\$767

Source: U.S. Census Bureau State and Local Finances, 1999-2000

**Calculated as U.S. expenditure total divided by U.S. total income or population*

Census Bureau information allows further analysis of this spending effect by broad program area, with particular attention paid to K-12 and higher education. These two spending areas are particularly important because they account for more than 35% of state-local direct general spending in Wisconsin, and data on enrollments, spending and revenues allow comparisons of Wisconsin spending to the national average.

K-12 Education. Wisconsin spends significantly more per student on K-12 education than the national average. On a per capita basis, Wisconsin's 2000 K-12 spending (\$1,453) was 11.9% higher than the U.S. average (\$1,298). However, relative to population, Wisconsin has fewer K-12 students. After adjusting for the number of students, the gap increases.

In 2000, Wisconsin's public school revenues totaled \$8,884 per student, 12.6% more than the national average of \$7,892. Given the number of Wisconsin public school students, the \$992 per student revenue difference means that, had Wisconsin been average, school districts statewide would have generated \$870.7 million fewer revenues for K-12 education than they did. (Revenues are used here so that we can ignore any gap between revenues and spending.)

To estimate the tax impact of the higher K-12 spending, we assume that all state aids to Wisconsin school districts are derived from state taxes. Under that assumption, 89.4% of Wisconsin school district revenues come from state and local taxes. The rest are from fees and federal monies.

Applying that percentage to the \$870.7 million spending difference gives an approximate \$778.4 million tax burden resulting from the above-average K-12 revenues. That total is higher than the entire revenue-mix difference (\$711.6 million) discussed previously. Wisconsin's above-average K-12 education spending represented 32.2% of the \$2.4 billion difference in Wisconsin's tax burden relative to the nation—the single largest factor.

Higher Education. Wisconsin also spends more on higher education. In census data, higher education includes all public universities and colleges, including technical colleges. In 2000, Wisconsin's public higher education institutions spent \$602 per capita, compared to the national average of \$477 (see Table 2). There are two main reasons for the higher spending here. First, Wisconsin's higher education system is 22% larger than the national average. In the fall of 1999, Wisconsin had 34.7 full-time equivalent students in public higher education institutions for every 1,000 residents. Nationally, the ratio was 28.5.

Second, Wisconsin spends more per student than the national average. In 2000, Wisconsin's higher education spending was \$17,353 per full-time equivalent student. Nationally, spending was \$601 per student lower at \$16,752. Again, these figures cover all types of postsecondary students, including high-cost technical and graduate students.

A third factor that affects the tax burden is Wisconsin's level of tax support of public higher education. In 1996-97, the last year for which data were available, Wisconsin state-local tax support of higher education totaled 43.1% of higher education revenues (National Center for Education Statistics). Nationally, that share was 39.5%. Data from the UW System and Wisconsin Technical College Board show government support for higher education in Wisconsin has declined by about one percentage point since 1996-97. However, we have no information on national changes during this same time.

The first two factors drive Wisconsin's higher education spending above the national average. Because of that higher spending, state and local taxes are higher. The third factor shows how Wisconsin's higher education funding is more reliant on state taxpayers, and less on students. This also increases tax burdens.

Because the state spends more per student on higher education, Wisconsin taxes were approximately \$48.2 million higher,* accounting for 2.0% of the Wisconsin-U.S. tax difference. Wisconsin's larger higher education system raised state taxes by about \$239.3 million and accounted for 9.9% of the tax gap. Finally, because Wisconsin uses tax revenues to a higher degree than other states to support higher education, taxes here were about \$23.9 million higher, or 1.0% of the gap. Taken together, Wisconsin's higher education revenue and spending decisions accounted for \$311.4 million, or 12.9%, of the tax gap.

Other Spending. Spending differences outside of education accounted for the remaining 25.4% of the difference between state and U.S. average tax burdens. The category with the biggest difference between Wisconsin and U.S. per capita spending, in both dollars and percentage, was state and local roads and highways. Wisconsin spent \$505 per capita on roads and highways in 2000, which was \$145 per person, or

* If Wisconsin's higher education system was the same size as the national average, the state would have had 33,141 fewer full-time equivalent students. Because we have already accounted for spending differences, that total is multiplied by the national spending per student to get the total savings. Using Wisconsin's 43.1% tax share yields the \$239.3-million total.

40.3%, more than the national average. Wisconsin's state and local governments also spent 13.9%, or \$22 per person, more on natural resources and parks, 11.8% (\$19) more on sewer and solid waste, and 10.7% (\$19) more on corrections. The Badger State spent 24.2%, or \$110 per person, less on public health and hospitals.

Wrapping Up

When the various aspects of Wisconsin's approaches to revenues and spending are pulled together, a clear picture of the state's finances emerges. Wisconsin's \$2.4 billion of higher taxes can be attributed to:

- Fewer federal revenues—\$339.6 million in additional taxes, or 14.1% of the Wisconsin-U.S. difference in taxes;
- Fewer miscellaneous revenues—\$181.7 million, 7.5% of the tax difference;
- Lower non-higher education fees—\$190.3 million, 7.9% of the tax difference;
- More spending on K-12 education—\$778.4 million, 32.2% of additional taxes;
- A larger higher education system and lower student tuition and fees—\$311.4 million, 12.9% of Wisconsin's additional taxes; and
- Higher spending in other areas, most notably local streets and roads—\$614.0 million, 25.4% of the state's higher taxes.

These insights can also be summarized numerically. Table 3 shows that revenue-mix accounts for \$0.7 billion (\$711 million) of the \$2.4-billion gap between Wisconsin's taxes and the U.S. average. The corresponding figures for spending are \$1.7 billion and 70.5%, with K-12 education the single largest individual category.

Table 3. Higher Spending Drives Wisconsin's Higher Taxes
Summary of Arithmetic Disaggregation

Revenues	% of Income		Additional Tax*	
	Wis.	U.S.	Amt.	% of Total
Federal Revenues	3.52%	3.75%	\$339.6	14.1%
Miscellaneous Gen'l Rev.	1.85%	1.97%	\$181.7	7.5%
Non-Higher Educ. Fees	2.03%	2.16%	\$190.3	7.9%
Revenue Sub-Total	7.39%	7.89%	\$711.6	29.5%
Expenditures	Per Capita		Additional Tax	
	Wis.	U.S.	Amt.	% of Total
K-12 Education	\$1,453	\$1,298	\$778.4	32.2%
Higher Education	\$602	\$477	\$311.4	12.9%
Other Expenditures	\$3,680	\$3,565	\$614.0	25.4%
Expenditure Sub-Total	\$5,735	\$5,340	\$1,704	70.5%

*Amount of add'l tax in Wis. due to fewer revenues or higher spending

The summary above is quite general. It is important to remember that the above table is quite general. If these categories were examined in greater detail, spending in any one area would not be uniformly high. Rather, it is driven by specific factors. For example, three items explain most of Wisconsin's higher K-12 spending. State school districts spend 52% more on employee benefits (but not on salaries) than the national norm. Wisconsin has smaller student-teacher ratios. And, due to a building boom in the 1990's, the state spends more on capital expenditures and debt.

Similarly, two factors explain the greater higher education spending here. First, Wisconsin's public university and technical college system is about 22% larger than average. Second, resident tuition for both systems is low, and, thus, taxpayer subsidies are high.

Wisconsin's extensive state and local road system also contributes to higher taxes. Road and highway spending here is 40% above the national average. Although weather is a factor, a more important factor explaining Wisconsin's state-local road spending is the fact that Wisconsin is sixth in paved road miles per capita.

Although, they were not examined in this essay, other forces may contribute to our high taxes. One is Wisconsin's unique state-local relationship and the role it plays in Wisconsin's higher spending. Other WISTAX research has shown that Wisconsin's increasing tendency to tax at the state level but spend locally has likely led to higher local expenditures. State aid may act as an incentive to spend by reducing the "tax price" of any state-subsidized service provided by local governments or schools.

Specifics aside, it is worth ending where we began. Certainly there are arithmetic answers to the question "Why Are Wisconsin Taxes High." Revenue mix, K-12 education, colleges and universities and highways all play a role. But what first led Wisconsin to exhibit these priorities? One cannot ignore that the state's Yankee/immigrant heritage laid the groundwork for our current levels of government spending and taxing. The state's long-held view of government as an active participant in society influenced spending decisions throughout the last century. And the tradition of strong local governments meant services are still provided in a decentralized manner, which requires higher state taxes to fund local spending and property taxes.

For further information:

The interested reader may be interested in reading the more extensive research study in which this report is based. It is available at www.wistax.org. Also of interest may be the following references:

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