

Doyle's Faustian Bargain

by Charles J. Sykes

You can say this for Governor Doyle, when he flips, he flops in a very, very big way.

Doyle was, of course, *against* the huge cigarette tax increase before he was for it. And when he was against it he was adamant.

Back in 2003, Doyle declared that he would veto any attempt to raise the 77 cent tax, arguing that raising the tobacco tax "puts the state in the very untenable position in which we want people to smoke, and (we) become reliant on that money.

"I said I'm going to (fix the deficit) without raising taxes. To balance a budget with a cigarette tax really puts the state in a very difficult position." As recently as last December, Doyle expressed skepticism about proposals to raise the tax by a dollar a pack.

What a difference three years and an election makes.

Doyle is now proposing a tax hike of \$1.25-a-pack, a tax increase that could raise \$500 million in the next biennium. He coupled the tax hike with a proposed ban on all smoking in public places and what he said would be a comprehensive anti-smoking campaign, funded by the new revenue. (The new program assumes that the governor and legislature don't succumb to the temptation to raid the fund for other purposes, such as spending on schools or roads.)

But inherent in the governor's proposals is a fiscal Faustian Bargain. As Doyle himself acknowledged in 2003, the more successful the bans/taxes/nagging is in reducing smoking, the lower the revenue the state will get from the cigarette tax.

In fact, the last time the state raised the tax – an 18 cent-a-pack increase in the 2001-2003 budget – the actual revenue fell \$35 million short of projections. The following year, cigarette tax collections actually declined by \$2.38 million.

"With a \$1.25 tax increase," Assembly Republicans pointed out this week, "we are going down the road of diminishing returns. That is, the higher it is raised, the less we can expect to gain (and the more the black market gains)."

This last point about the black market actually deserves more attention. Thus far, media commentary seems to be ignoring several key points about Doyle's tax proposal:

- The cigarette tax is among the most regressive levied, so the impact of the latest increase will fall most heavily on lower income smokers. As a class, they are not only despised, they are also powerless.
- Doyle's tax would not only create a potential black market, but also set the stage for vigorous cross-state-lines commerce. With a Wisconsin tax of \$2.02 a

pack, smokers would be able to reap considerable savings by driving to Iowa (where the tax is only 32 cents a pack); Minnesota (where it is \$1.49 a pack); or Illinois (98 cents a pack.)

- The tax also creates a potential windfall for the state's Indian tribes, since cigarettes sold on reservations, including the casinos, are not subject to state taxes. (Casinos would similarly be exempt from Doyle's proposed ban on smoking in public places.)

For the tribes, Jim Doyle is the gift that always seems to keep on giving.