

Not-So Compelling Tax Increases

by Christian Schneider

"We can't make you do anything, but we can make you wish you had."

- Corporal Walter Gordon in the book "Band of Brothers" describing the Army's motivational philosophy

Disgruntled taxpayers are often reminded that taxes are necessary to fund basic services; schools need to teach kids, local governments need police officers and the elderly need prescription drugs. As if that wasn't justification enough for paying taxes, Governor Jim Doyle has a brand new one for you — you need to pay higher taxes to keep yourself from doing bad stuff.

Doyle's biennial budget bill is chock full of tax increases whose explicitly stated purpose is to keep you from doing things your governor deems unseemly. Doyle proposes raising the cigarette tax by \$1.25 per pack, citing a study from the Campaign for Tobacco Free Kids that says a tax increase of \$1 per pack would result in 42,000 Wisconsin adults quitting smoking. His budget raises the fee on filing taxes by paper because he wants more people to file electronically. Doyle proposes raising the fee on dumping trash to keep out-of-state businesses from dumping in Wisconsin (His budget also raises the fee on obtaining a copy of a death certificate — so if you're thinking about dying, you might want to get that out of the way soon).

So begins a new era in Wisconsin — the era of the "coercive behavior tax." We are now seeing taxes with the stated purpose of motivating people into certain behaviors the government sees fit, rather than just funding necessary programs. The government can't make you do certain things, so they just want to make you wish you had.

The idea of using taxes to compel citizens to do things isn't new. For years, interest groups have pitched the idea of "sin taxes" on everything from pornography to fast food to illicit drugs (making my Friday nights way more expensive). Environmental groups haven't made any secret of the fact that they prefer higher gas taxes, to keep people from driving more. There's even a bill in the Wisconsin Legislature that would raise the tax on liquor and beer — the authors argue that the liquor tax in neighboring states is generally three times higher, which of course means that ugly guys are 66% less likely to get any lovin' in Minnesota.

Yet while Doyle recognizes one basic tenet of economics — if you make something more expensive, people will do less of it — he completely ignores the flip side. That is, if you make something less expensive, individuals will do more of it. We could easily compel people to file their tax returns electronically by giving them a tax credit to do so — but the first thing Doyle thinks to do is to

raise the fee. This exposes the whole idea of compelling certain behaviors through tax increases as nothing more than a common cash grab.

Somehow, it's hard to believe Doyle is as interested in keeping smoking down as he is in the \$400 million the tax is expected to raise for the state. According to the U.S. Department of Agriculture, cigarette use has declined an average of 2.3% per year since 1996, in part because "not dying" has suddenly become fashionable. It appears society is already taking care of the smoking problem — unfortunately, stagnant cigarette tax revenues haven't taken care of Jim Doyle's spending addiction.

What's also interesting is that Doyle openly recognizes that increased fees dissuade people from doing things. Yet he only publicly acknowledges this effect for the fee increases that have been poll tested. For instance, his budget proposes increasing the fee on applying to the University of Wisconsin. Won't that also have the effect of suppressing applications, just like the effect the cigarette tax increase has on smoking? Won't doubling the real estate transfer fee make it more difficult to buy a home? (Although, admittedly, if the extra couple hundred bucks puts a home out of reach for you, it's time to ask your night manager for a raise. I mean, you have a G.E.D. — it's time to show it off!) Is the new hospital tax going to finally rid us of the scourge of people receiving medical treatment for their illnesses?

Government already has the ability to compel certain behavior by passing laws outlawing certain acts. For instance, it is illegal for you to shoot me in the face — unless, of course, you catch me in your house using your nose hair clipper (again). If we don't want people to smoke, we should be honest about it and pass a law outlawing it, rather than taxing a legal product to death. However, if we do that, it kills the state's revenue stream — which is what this is really all about.

If we do want to use tax policy to coerce Wisconsin citizens to do certain things, it should be in the form of lowering taxes. For instance, a groundbreaking bill last session lowered taxes for businesses that hired disabled workers. The legislature often exempts items from the sales tax that promote sales of Wisconsin products. Better yet, coolness would reach record highs in Wisconsin if we exempted white t-shirts and hair gel from sales taxes to get more people to dress like the Fonz.

Regardless of the justification for these tax increases, they always have unintended consequences beyond simply enhancing revenue for the state. For example, raising the cigarette tax means taxing poor people, who smoke at a predominantly higher rate. Additionally, retailers who sell cigarettes will raise prices on other goods to make up for the revenue they lose when fewer people buy smokes.

For the sake of argument, let's say Doyle is successful in getting people to quit smoking. By raising the tax so much this one time, he's built in hundreds of millions of dollars in spending. As people kick the habit, money flowing to the state will decline, meaning that tax revenue is going to have to come from somewhere. Building in all these costs based on a program with declining revenue is a recipe for a general tax increase elsewhere.

Let's just hope these tax increases coerce the legislature to put out this flaming bag Doyle has left at their doorstep, for the good of Wisconsin taxpayers.