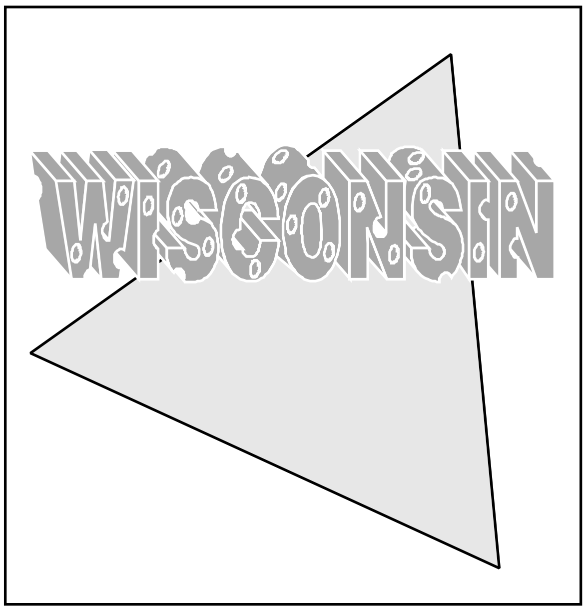
THE IRON TRIANGLE

CHARLES J. SYKES

If there was one unmistakable mandate from the November election it was: don't raise taxes.



Jim Doyle won the governor's chair back for the Democrats by saying that he would not raise any state taxes to close the state's $2.8 billion budget deficit. The public apparently believed him. The other 55 percent who voted for Scott McCallum and Ed Thompson also voted for candidates who said they wouldn't raise taxes. And in the legislature, the GOP racked up big majorities in both the Assembly and the Senate, running on a no-tax platform.

Underlining the anti-tax mood, a Wispolitics.com poll in late November found that 83 percent of Wisconsinites say they are somewhat opposed or strongly opposed to raising taxes — 66 percent saying they "strongly" opposed tax hikes. Eighty four percent said they were strongly supportive or somewhat supportive of cuts in state spending.

So are tax increases dead on arrival? Hardly.

Indeed, it will take an extraordinary act of political will for the new governor and legislature to deliver on their promises, because they are about to run up against one of the state's most entrenched institutions: the Iron Triangle.

The Iron Triangle

The Iron Triangle explains why spending and taxes are so high and so difficult to cut here in Wisconsin.

One side of the Triangle consists of advocacy groups and activists who have a vested interest in spending programs; the second side, government bureaucracies that run the programs; and the third, the friendly news media that can be counted on for sympathetic stories about the victims of budget cuts.

Here's an example of how it works. Legislators propose a 5 percent cut in an agency's budget. The bureaucrats select a highly visible, popular program to cut; the advocacy groups raise alarms about the damage the cuts will cause, mobilizing supporters for hearings, letters to legislators, and rallies, often featuring people in wheelchairs; and the newspapers and television stations highlight the

Charles J. Sykes is the editor of WI:Wisconsin Interest *and a Senior Fellow of the Wisconsin Policy Research Institute. He also hosts a talk-radio show on AM 620 WTMJ in Milwaukee.*

impending disaster, preferably with affecting stories of hungry senior citizens who will have to sleep in the snow. Politicians back off.

Cut school aid? The teachers union mobilizes, threatening job actions; the educational bureaucracy issues dire warnings; and the papers are filled with stories of children who will have to learn math in storm sewers.

Now multiply that by hundreds of programs that will face cuts.

The University of Wisconsin system, for example, found the money to grant a $91,000 a year raise to system president Katherine Lyall, and it spends six figures a year for free housing for UW chancellors. But when it is faced with — as yet unspecified — budget cuts, the system reacts by targeting . . . students.

Even before Doyle came out with his budget UW's administrators were warning of "larger class sizes, fewer programs and reduced services," and several campuses announced cuts in the number of students admitted. (UW-Whitewater and UW-Eau Claire said they would cut the number of freshmen admitted, while UW-LaCrosse warned many applicants that it wouldn't decide whether to admit them until they got their budget numbers.) The plight of the victim-students made front-page headlines across the state, even as Doyle was picking his budget team.

The rule here is that the so-called "adversarial" press is seldom skeptical of the claims of the budget "victims," and can be counted on to portray their complaints in the most sympathetic light. An early example of the media's role in the Iron Triangle was *Capitol Times* columnist/purveyor of conventional wisdom Matt Pommer who wrote darkly:

> In 2003 many in the Capitol will think that "forward" means slashing government spending and absolutely not raising any fees or taxes. That will certainly be popular among those who in the 21st century "are far from want."

(Translation: Only the rich want politicians to keep their promise not to raise taxes.)

Pommer then describes how the Iron Triangle will react to spending cuts:

> [BadgerCare] costs are running about $70 million higher than the current year's budget anticipated. . . . Any plan to significantly reduce Medicaid services would seem to guarantee demonstrations. Those demonstrations certainly will include people in wheelchairs and those using walkers. This is the stuff of which TV crews dream. Few members of the new Legislature have experienced this kind of lobbying effort.

Arrayed against the wheelchair-bound budget victims are "the lobbyists for the rich and powerful who contend Wisconsin is a 'tax hell' based on the percentage of income being levied through taxes."

Similarly, the operation of the Triangle was apparent in the *Milwaukee Journal-Sentinel* in December — in an article that began with a litany of pain and suffering:

> Up to 4,400 disabled residents who qualify for job-training programs will be on waiting lists. Money to rent out-of-state prison beds and provide health care for inmates is running out. The program that pays for health insurance for the working poor is $10 million short. The Natural Resources Department needs $1.7 million to fight chronic wasting disease in the deer herd.

The media's role in the Triangle will also be reflected in the Editorial Dance. Early support for spending cuts will be followed by editorials decrying specific actual cuts in programs and services. Watch for the word "draconian" to describe those cuts in the state budget. Not surprisingly, Republicans will come under special fire for their "partisanship" and their "mean-spirited spending cuts."

By March, the "leadership" editorials will appear, calling on Governor Doyle and the Republicans to recognize that their promises not to raise taxes during the campaign were "unrealistic" and "ill-considered" in light of the magnitude of the fiscal crisis.

The editorials will call on the governor and legislature to show "leadership" by breaking those promises and raising taxes (which are never, ever referred to as "draconian"). Reneging on the no-tax pledge will be a sign of maturity and "responsibility." Generally, editorial writers don't applaud lying politicians, but breaking one's word on raising taxes is applauded as "courage," and an indication of "growth" — words never applied to the much more difficult task of cutting spending and eliminating popular programs.

Tax Hell

This political/media dynamic helps explain — at least in part — why Wisconsin has the nation's third highest state and local tax burden. According to the Wisconsin Taxpayers Alliance, Wisconsin spends 29.5 percent more than the national average on higher education, nearly 20 percent more on elementary and secondary schools, and 25.9 percent more than the national average on transportation.

During the 1990s, spending did not simply rise — it exploded. If state politicians had simply kept the increases to twice the rate of inflation, the state wouldn't have a budget problem at all. Not only did they not hold the line, they blew it away.

Capitol insiders sneer at the notion that the budget deficit can be closed by spending cuts.

At the same time the ability of Wisconsin taxpayers to pay has been falling. Despite the above-average rate of spending, state wages are now 13.3 percent below the national average, and they have been falling relative to the rest of the country for more than 30 years.

According to the IRS, Wisconsin's per capita wealth of $13,862 per person ranks us a pathetic 41st in the nation. We are, quite simply, no longer the prosperous state we have long imagined ourselves to be. Every year, tens of thousands of college graduates leave the state, joined by a growing number of retirees. Investment capital avoids us like Baptist ministers at an Eminem concert. In 2000, Wisconsin received about $181 per worker in investment capital, compared to the national per worker average of $2,613.

Despite that, the chorus urging Doyle to raise taxes is already getting louder.

Capitol insiders sneer at the notion that the budget deficit can be closed by spending cuts. Of course, many of those insiders have a vested interest in maintaining current levels of spending, but they also shape conventional wisdom, which is slavishly repeated by pundits, editorial writers and other commentators. Lobbyists, pols, and pundits-in-the know scoff at the notion that Doyle really meant what he said, and sophisticated opinion increasingly regards tax hikes as inevitable — a "given."

The Tax Drumbeat

Even before the election, a bipartisan group of insiders, including top budget aides to Tony Earl and Tommy Thompson, had begun lecturing the candidates that the budget could simply not be cut enough to close the deficit. The group proposed $3.6 billion in new taxes. Hailed in media accounts as the "grownups," many of the authors had played key roles in the spending increases of the last two decades, including Mark Bugher, former revenue boss in the Thompson administration, Mike Ley, revenue secretary under Earl, former state auditor Dale Cattanach, and several other high-level veterans of state government. Their plan would have trimmed the state income tax, but the reductions would have been more than offset by increasing the sales tax to 6% and scrapping many exemptions.

Their "insider" endorsement of new taxes has been echoed in an ongoing media/political drumbeat:

Drumbeat: *Journal Sentinel* business columnist Avrum Lank wrote that Doyle should deal with the budget in an "adult" manner and work with legislative leaders. Such an approach," Lank wrote, "will make it easier for all concerned when the final decisions on the budget must be made: how taxes will be raised. Yes, raised."

Of course Doyle and the Republicans *did* promise over and over again not to raise taxes, but Lank brushes off such trivialities. This was boob bait for the bubbas. Smart people know better. Even as the politicians were promising not to raise taxes, he wrote, "There was a growing consensus among most of Wisconsin's leaders that, when all is said and done on the spending side, some tax increase will be necessary to balance the next state budget." In the end, Lank predicted, the only real contest between Doyle and the Legislature "will be over how taxes are increased."

Drumbeat: Pommer — again — in the Madison *Capital Times*, writing that state officials were expecting bad news on the size of the state budget deficit, points out the real villains of the piece:

> The self-styled right-wing radio hosts will be hovering like buzzards to see Doyle's reaction to the bad news. Some of them may suggest that a 15 percent budget problem could be easily solved by cutting all programs by 15 percent. Of course, the state won't reduce its prison population by 15 percent or cut Medicaid, facing large growth, by 15 percent, etc. etc.

In other words, the problem here is not that politicians may renege on their promises, but that nasty talk shows hosts may actually try to hold them to their word.

Drumbeat: Democratic State Senator Bob Jauch, D-Poplar, did not even wait until the numbers were out to declare that they were a clear sign that taxes had to be raised. "I think reality sets in (today)," Jauch said. "The worse the news is the more justification there is to take dramatic action." Jauch says a tax boost is the only alternative to what he says are "staggering" cuts in corrections, Medicaid, the University of Wisconsin and other programs. "Yes, we're going to have to raise taxes, and everybody knows it."

Drumbeat: Former Republican State Senator Joe Leean, a former co-chair of Joint Finance and member of Tommy Thompson's cabinet writing in the *Wisconsin State Journal* says:

> Now that the election is over, political leaders can stop making promises that cannot be fulfilled. Both Republicans and Democrats in Wisconsin government have insisted the current budget crisis can be resolved without tax increases for the next two years. No way!

Drumbeat: Ignoring their own parties' promises not to raise taxes, Democrat State Representative Wayne Wood and Republican State Representative Michael Lehman proposed raising the state sales tax from 5 percent to 7.75 percent (effectively raising tax to 8.25 percent for residents of counties with a .5 percent county tax) as a way of reducing school property taxes. One catch is that this massive tax shift would have been accompanied by lifting the spending caps on local school districts, as well as the QEO.

Drumbeat: The Wisconsin Counties Association has also chimed in with a proposal to raise the sales tax by $745 million by removing dozens of exemptions to the sales tax. A spokesman for the group even provided the spin: "The governor can talk about this as a tax increase, but we see it in terms of tax *fairness*."

Drumbeat: John Huebscher, the executive director of the Wisconsin Catholic Conference, insists that spending in the state is not too high, nor are taxes.

> If a Catholic was asked to cite an example of a parish that sets a good example for the rest of the diocese, one might point to a parish community whose members, though not blessed with as many financial or material resources as other places, give freely of their gifts to make the parish a vibrant community where the total is more than the sum of the parts.

"Not unlike our state of Wisconsin," he added. (Except for the giving "freely" and the "vibrant community" part, of course.)

Temptations

As pressure builds on policymakers, they will be tempted to finesse the budget/tax issue in two ways: spin and budgetary gimmickry. There is, of course, no shortage of options.

Some of the most plausible — and cynical advice — on rhetorical sleight-of-hand comes from former gubernatorial aide Bill Kraus. A member of the board of Common Cause, Kraus was an aide to former Governor Lee Dreyfus, and represents a certain wing of the Republican Party.

Kraus suggests that state politicians get around their silly promises not to raise taxes simply by using what he calls, "semantic gymnastics."

"Start with the theory that revenues can be *enhanced* without taxes being raised," he suggests.

> An example of something that would "enhance" revenues is an extension of the sales tax to transactions and items that are not presently subject to that tax. Maybe the un-sales-taxed accountants, lawyers, advertisers, and other service providers or their customers would "pay more taxes."

But, Kraus hastens to add, this is not really a tax increase. Indeed, "for most of us, this is merely a long overdue extension of something that a lot of us have been paying for years."

Another Krausian scheme: make the property tax that goes to the schools a state instead of a local tax. "This is definitely not a tax increase. This merely reroutes an existing tax."

And how about fees? Surely, Kraus writes, "they should be indexed (maybe even retroactively) for inflation." It goes without saying, Kraus insists, that "fees — particularly user fees — are not taxes." (Wink.)

> Everyone knows that the cost of things for which fees are collected has gone up over the years. The cost of services and goods sold and provided by the private sector go up due to inflation alone. Why not public sector goods and services too? Obviously this is not a tax increase; it's simply re-pricing fees and services to compensate for the ravages of inflation.

No increases here. Just "repricing." (Wink.)

Kraus paints a semantic roadmap for politicians who want to weasel out of their commitments. "Other words will creep into our vocabulary as the winners of the 2002 election begin to find their way out of the 'no-tax-increase' corner they painted themselves into. 'Loophole closing' is one which brings our sense of fairness into play. A less well-known word and concept is 'holiday,'" by which the former aide means raiding the pension fund.

As pressure builds on policymakers, they will be tempted to finesse the budget/tax issue in two ways: spin and budgetary gimmickry.

And last, but far from least, is "tax transference," simply shifting taxes to local units of government. Even though taxpayers would end up paying more taxes, Kraus notes that politicians can plausibly deny that the increased taxes are actually tax increases.

"The sum total of all of these semantically correct revisions," concludes the guru of political virtue, "could get rid of the deficit, reform the tax system, keep Wisconsin services at Wisconsin, as contrasted to Mississippi, levels and all without a 'tax increase.'"

Smoke and Mirrors

Another alternative to actually cutting spending is budgetary smoke and mirrors.

One iron law of politics is that anytime there is a pile of cash left lying around in the reach of politicians, they will try to grab it and use it for their own benefit. A case in point was the tobacco settlement money. All of those billions of dollars may have been intended for health programs, but they were just too much for legislators to resist. Last year they used every single cent to take themselves off the hook.

There is an old story about a frog that gives the scorpion a ride on his back across a river. Halfway across, the scorpion stings the frog, assuring that both of them will drown. "But why?" the puzzled frog asks. "It's my nature," answers the scorpion.

Faced with a massive budget hole, the governor and legislature had to choose either to raise taxes or cut spending. Instead they grabbed the cash. It's their nature.

For a decade or more, Wisconsin's governor and legislature have avoided having to make hard decisions on spending, first relying on a booming economy, then by hedging and fudging with similar budget gimmicks.

Even though the faces are new, their nature hasn't changed. So it's not surprising that some politicians have cast a lean and hungry eye on the state's $52 billion pension fund. If the raid of the tobacco settlement was the Mother of all Gimmicks, the pension raid would be the Father. In fact, they've already pulled one heist.

Back in 1999, the governor and legislature squeezed out some short term savings in return for dramatic increases in benefits to state and local employees, including elected officials. Those fattened pensions will eventually have to be paid for, and local governments are already facing significant property tax increases just to cover their higher pension contributions.

The 1999 deal boosted pensions by 8 to 10 percent in return for letting the state skip making contributions for a couple of years. In return for a two-year "contribution holiday," the governor and legislature shifted $4 billion to pay for the fat new pension benefits. That helped the governor and legislature appear to present a balanced budget, but it also saddled taxpayers with massive new obligations. At the time, the tradeoff seemed safe because the stock market had performed so well, but the fund's losses — it's down $12 billion since 1999 — have meant that taxpayer exposure has grown exponentially.

But the larger problem is the politicians' near allergy to making hard decisions and their addiction to gimmicks. The pension raid is being considered for only one reason: politicians of both parties have no experience of and little stomach for reversing state government's decade-long spending binge. The pension raid would give them an excuse to once again avoid cutting spending in any meaningful way.

But it's an idiot's bargain: the state would keep spending money it will eventually have to pay back with interest. Even so, pressure to pull another gimmick will intensify as opposition to spending cuts grows.

Warnings

Governor Doyle and the legislature have a dual job: they must not only fix the state budget, they must also find a way to keep Wisconsin from slipping to an even lower circle of tax hell.

In the end, though, the political calculus may trump the economic calculus. Lest they yield to the editorial blandishments, legislative Republicans need to remember the fate of George "Read my lips" Bush. Jim Doyle needs to remember Tony Earl.

The stakes for the governor are hard to overstate. If Jim Doyle manages to close the deficit without raises taxes (or resorting to gimmicks like a pension fund raid), he will probably be governor for a good long time.

If he reneges on his promise, he'll be a one-term governor, no matter what the chatterers say.