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## **Budget Bomb Incoming**

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I'm worried about the state budget. You might worry, too.

Once again, Wisconsin's in deep deficit. For the present biennium, at most recent count, about \$1 billion and rising. This fact is widely known but not yet very openly discussed. Perhaps the silence is because the news is so bad, so new and so likely to get much worse. After all, it's hard to "spin" a bomb that's suddenly discovered to be coming at you, and that actually keeps getting bigger as it approaches. Which is what this mess feels like.

A billion dollars is a nice round number to remember. It's also a familiar one in recent budget follies. Specifically, that's about the size of the deficit we just spent several months whittling down to zero in order to get to the present budget. And now, just a few months later, it's back again. A Ping-Pong ball we pushed only briefly under water that must again be submerged -but with the important difference that Wisconsin is in a much weaker position to do so than it was even as recently as last spring.

One reason why is obvious: The economy is weaker. The national economy, indeed, is tanking, and as the national goes so go most states. As their level of economic activity falls, their tax revenues decline, even as demands rise for income supports and services (for example, for unemployment insurance).

We see all this in Wisconsin. Picking up national rumblings, state investment, productivity, manufacturing orders and other measures of economic health have all been stagnating or moving backward for a while now, and seem to have gone into free fall since Sept. 11. So our tax revenues have declined and we're again in deficit. As thousands are thrown out of jobs in coming months, the strain for additional supports will also be felt.

\*\*Given our constitutional strictures on a balanced budget, deficits don't admit many solutions. Cut programs or increase taxes. The governor doesn't like doing the second, but he's probably out of luck, since a billion in additional cuts in this budget will be nearly impossible to find. Also, more cuts in spending at a time of sagging demand may just worsen the recession disease, which means even lower tax revenues, so that the cuts become self-defeating.

A second reason we're more boxed in - though in truth a welcome one, given past mischief - is that we've pretty much shot our wad of budget tricks. You'll recall that the last \$1 billion deficit was largely met through outright gimmickry or once-in-a-lifetime measures: deferred payments on outstanding loans, creative accounting on program obligations, a big raid on the tobacco settlement legacy. This avoided increasing taxes while minimizing cuts in popular programs. But it didn't impress the bond markets, which immediately downgraded Wisconsin's credit rating.

By conventional accounting standards it actually left us bankrupt - a dubious distinction we share with only one other state. For reasons of prudence, and the natural limits of skulduggery and tobacco settlements, it seems unlikely we'll be pulling another billion dollar round of rabbits out of our fiscal hat. The hat is truly empty, and everyone's run out of magic.

Yet a third problem is that the federal government, which might reasonably be expected to help fiscally strapped states during this period, is instead making plans to hurt them. Exhibit one are the tax cuts of the House's "stimulus" package, due for approval any day now. By reducing federal tax liabilities for corporations and rich people, they will have the effect of reducing state revenues as well - about \$15 billion over the next three years, \$140 million annually in Wisconsin (so \$280 million in the biennium). Exhibits two, three and four all go to the spending programs proposed by the same legislation. There is next to nothing for the newly unemployed workers, or uninsured families, whose ranks the recession is rapidly increasing.

But a fourth and even deeper problem is this. Even after we ride out this recession, even indeed on the happy assumption that it proves to be a V-shaped recession that recovers as fast as it's gotten ugly, what seems most unlikely is that anything approaching the national financial performance during the 1990s, or state fiscal conditions of that time, is likely to be renewed anytime soon. Both now appear to have been exceptional, indeed close to unique, since they relied on conditions not likely to be matched again anytime soon. The national economy, for example, relied heavily on the wealth effect of a stock market bubble that's now crashed - \$5 trillion in losses that seem unlikely to bounce back anytime soon.

The 1990s boom also relied on a vast run-up in consumer debt. But this has effectively reached its limit, with individual debt now exceeding all savings. Similarly, states in the 1990s enjoyed some of their best of fiscal times. Income tax revenue was soaring, sales taxes boomed with debt-driven consumption, Medicaid suddenly slowed in growth, caseload-shattering welfare reform was a windfall, and then of course there was all that tobacco money. But most of this, too, has now changed.

\* The bottom line is that, quite apart from the particular recession dynamics at work now, states are consigned to a harsher fiscal territory. And that's of particular relevance to Wisconsin, since we have to an unusual degree relied on precisely those unique circumstances to mask our

fiscally irresponsible ways over the past dozen or more years. Obscured by the booming 1990s, this grand legacy of the Thompson years is finally visible in Wisconsin. And it is coming due.

Joel Rogers teaches at the University of Wisconsin-Madison and is founder and director of the Center on Wisconsin Strategy (COWS), which administers the Sustaining Wisconsin campaign. This is another in a weekly series of Capital Times columns he's writing on issues in the campaign. For more information, see [www.cows.org](http://www.cows.org) and [www.sustainingwisconsin.org](http://www.sustainingwisconsin.org).

Joel Rogers is director of COWS, the Center on Wisconsin Strategy, at the UW-Madison. On Jan. 29, COWS debuted "Sustaining Wisconsin," a statewide dialogue about the future of Wisconsin. The themes expressed in this view of the state of the state will carry through the next 18 months as COWS uses Sustaining Wisconsin to put the Wisconsin Idea into action.

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