

## **On State Fiscal Responsibility**

In a column last month, Sen. Mike Ellis made an eloquent case for why the state should turn down any federal bailout dollars. I disagree with Sen. Ellis – this downturn is so severe, there's no way the state can dig itself out of its fiscal hole without federal help. But his main point is absolutely on target – it's time for the state to finally put its fiscal house in order.

As Sen. Ellis points out, for the last decade or so the state has been raiding various one-time sources to balance its budget. So how did we get itself into this fix? Here's a little history.

It's 1999. Bill Clinton is President, the stock market is soaring, the economy is booming, and tax dollars are pouring into the state treasury. Had our legislature read Genesis, they'd have known what would surely follow the 7 years of plenty. But they hadn't, so they decided to buy some political popularity by distributing the state's surplus as Sales Tax Rebate checks. Then they cut tax rates by about 10%. Of course, since the state treasury was flush, there was no need to cut spending. So they didn't.

As usual, the legislature's timing was impeccable. In the nine months following the rebate giveaway, the stock boom busted, the economy dipped into recession, and that lovely flow of tax dollars into the treasury dried up. The state had no reserves to weather the storm, so – it sold off the tobacco settlement. And that's more or less how the game has been played ever since.

Sen. Ellis says the problem is that we haven't cut spending. I half agree. The problem is really that the state cut its tax rates, but not its spending. If you want to tax less, fine, spend less. And if you can't spend less, don't tax less. But please, don't pretend that you can have your cake and eat it too.

I really doubt that we can dig out of this hole through spending cuts. Sen. Ellis' Republican colleagues, who from 1995 through 2006 always controlled at least two of the three power brokers – the Governor's office, the Senate, and the Assembly – never came up with anything better than cutting aid to school districts and to cities. In other words, they supported cutting everyone else's spending except their own. Under Doyle, the UW System has been a regular target, enough that tuition has more than doubled in the last 8 years. But still, the gap persists.

I think we need to do two things. First, some tax increase, perhaps a partial reversal of the 1999 cuts, is needed. It's time to stop pretending that spending cuts will get us out of the red. What hasn't happened for 10 years most probably won't.

Secondly and more importantly, we need to force the state to save its surpluses in good times, so it doesn't find itself in a fix every time we hit a downturn. Some type of mandated savings fund, that automatically sets aside any extra revenue that comes in whenever the economy is strong. If the extra tax dollars were swept up and set aside, irresponsible legislators wouldn't be able to vote on higher spending without coming up with a way to pay for it.

And if the extra tax dollars were swept up and set aside, irresponsible legislators wouldn't be able to vote on lower taxes without coming up with the matching spending cuts. The problem isn't higher spending, nor is the problem tax cuts. The problem is not having the spine to pay for one by taking away the other.

So my recommendation is, let's force our state government to grow a spine.