

Aaron Hedlund: The tax debate Wisconsin needs

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The topic of tax reform is top of mind these days in Wisconsin. The latest manufactured scandal surrounds a conservative proposal that acknowledges the virtues of a lower, flatter tax code. As expected, the proposal earned the immediate scorn of the radical Left. The sin? Proposing “massive tax reform to get more money in people’s pockets” and firmly standing opposed to raising taxes “on anyone.” That’s a shame because the Badger State could use a good debate on how to reform taxes to improve growth. But scaremongering about tax cuts has become the Left’s calling card, and, unfortunately, some others have been cowered into sustaining the status quo by false rhetoric about tax cuts being a sop to the rich.

The argument about lower, flatter tax rates only benefiting the rich is simple to the point of being simple-minded — and deeply wrong. The argument is essentially this: people who earn more money face larger tax bills, so if we cut tax rates, their tax bills fall by more than people who earn and pay less. First of all, the idea that such basic arithmetic is supposed to be fatal to the prospects for tax reform is rooted thoroughly in a class warfare mentality, and this simple logic works in the opposite direction as well. Is there any limit to how high taxes should be if their primary virtue is to sock it to the “undeserving” rich? The more the tax code becomes a vehicle to penalize success and redistribute the plunder instead of raising revenues in the least economically damaging way possible, the more that America will lose its identity as a beacon for producers and creators, and the dimmer prospects will become for prosperity.

Secondly, and more to the point, this static distributional argument rests on one key fundamentally flawed assumption: that taxes don’t matter for behavior. The simple-minded arithmetic of counting how much money one person saves compared to another assumes that nothing else changes in response to tax reform: no change in the number of available jobs or their pay, no change in the amount of capital businesses can tap into for expansion and no change in the number of available

workers willing to stay in or move to the state. One only has to look across the border to Illinois, where people are fleeing in droves, or to the exodus of people and businesses from California and New York to see that taxes do affect economic behavior in a profound way.

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The primary benefit of tax reform is not in how it reduces the size of the check people write to the government each year but rather in the size of the paycheck people receive when they have access to greater economic opportunity. In some cases, the dividends of this opportunity manifest as workers actively switching jobs for a large pay hike. In other instances, the mere threat that workers might get lured away by abundant other job opportunities is enough to pressure their current employer into dishing out bigger raises.

Currently, prosperous Wisconsinites face a top tax rate of 7.65%, and the lion's share of tax filers are subject to the second highest marginal rate of 5.3% — a big improvement over its previous value of 6.27%, thanks to the most recent round of tax cuts. Even so, compare that rate to Indiana's 3.23% and Iowa's soon-to-be sub-4% rate, and it's clear that Wisconsin still faces stiff competition to attract talent. A large body of research makes clear that reducing state-level income tax rates — yes, including for those at the top — is an effective way to boost pre-tax incomes across the board because of the more robust economic activity that takes place in the wake of such reforms. Opposing policies that boost economic growth for reasons of class warfare never makes sense, but such opposition is especially an exercise in folly at the state level, given that aspirational people can easily pack up and move to a different state.

Although often overlooked by the coasts, Wisconsin has often been at the forefront of policy change. By ignoring the Left's doomsayers, Wisconsin can once again set the tone for the country, but this time by pursuing bold reforms that dramatically reduce the footprint and economic collateral damage from its current income tax code.

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