



# La Follette Policy Report

ROBERT M. LA FOLLETTE SCHOOL OF PUBLIC AFFAIRS

VOLUME 13, NUMBER 2, FALL–WINTER 2002–03

## DIRECTOR'S PERSPECTIVE

If we were playing the Great Karnak, "An Engaged Academic Community" would be the answer to the question, "What is the La Follette School of Public Affairs?" But it would also be the answer to the question, "What does the world need in order to think intelligently about its complex social problems?"

As La Follette's new director, I have cause to think of La Follette's place in the world. What is the La Follette School of Public Affairs? Where did it come from? What can or should it do?

La Follette is an engaged academic community. It is a small community of faculty who work full time on the complicated social problems of the modern world. They have their heads in the ivory towers of academia and their feet in the

continued on page 21

## IN THIS ISSUE

When Work Alone  
is Not Enough, 1

Linking Campaigns and  
Policymaking in Wisconsin, 5

Juvenile Delinquency, 9

Finance Policy, 13

Corporate Tax, 20

Homeland Security, 23

## When Work Alone is Not Enough

**Robert Haveman**

*The author is John Bascom Professor of Economics and Public Affairs at the University of Wisconsin–Madison. The very helpful comments of Isabel Sawhill and David Ellwood are gratefully acknowledged, as is the discussion of an early draft of the paper by the members of the Brookings Roundtable on Children. A version of this article will be published in 2003 in a volume edited by Isabel Sawhill and published by the Brookings Institution.*

There is now substantial research showing that the economic resources available to families have a crucial and substantial effect on their children's development and success. Evidence showing that the 1996 welfare reforms have contributed to the widely heralded increase in the employment and earnings of welfare mothers is also convincing.

Other research, however, tells us that the increased work and earnings of these mothers has not led to a marked increase in the overall income of their families. Several studies that compared the income levels of families before and after leaving welfare have found little overall increase in income. For some welfare "leavers," the increase in earnings has been more than offset by the reduction in cash benefits, while for others the benefit offset has led to only small gains in net income. Although some welfare families have escaped poverty through work, others have fared badly. Even though poverty rates for single mothers have fallen over the last decade, they remain high. At the beginning of the new millennium, over 30 percent of children of lone parents lived in poverty, even when federal earnings supplements and Food Stamps were taken into account.

At first blush, this result would seem surprising. After all, over the last decade, the federal government has shifted the emphasis of its policies for low-income families toward those who are working and earning. At the beginning of the 1990s, low-income working families received about \$13 billion (in 2000 dollars) of federal assistance, but by the end of the decade they received over \$70 billion. Most of this increased spending was in the form of earnings supplements such as the Earned Income Tax Credit (EITC), child-care subsidies, or health insurance coverage. The EITC adds 40 cents to every dollar of earnings up to about \$10,000 for families with two or more children, for a maximum benefit of \$4,000. This maximum benefit applies to all earnings from \$10,000 to about \$16,000 and then phases out at a rate of 20 cents per dollar earned.

What, then, accounts for the failure of earnings to override the loss of cash assistance benefits when single mothers leave welfare for the labor market? The obstacles to full-time, year-round work are severe for this population. For these women, intermittent employment and part-time work are common and account for some of the earnings shortfall. Low-skilled single mothers fail to hold consistent full-time jobs for several rea-

sons, not the least of which is the difficulty of balancing the demands of child-rearing with work. Moreover, this population is often encumbered by severe and multiple physical, mental, and emotional barriers to work. Without some yet-unforeseen intervention that could overcome these conditions, the income gains available through increases in working time seem small.

The other reason for the low earnings of these single mothers is the generally low level of human capital they bring to the labor market. The wage rates of this group of women yield earnings that are well below the amount necessary to secure minimally accepted levels of living. Except in a few high-wage states, wage rates average about \$8 per hour. Working an average of 30 hours per week over the entire year yields annual earnings of \$12,000, before taxes. When payroll taxes and the federal EITC are taken into account, the cash income of families with single mothers and two children earning this amount remains below the poverty line of approximately \$14,000 (for 2001). Although the federal government and some states have expanded tax-based work supplement-

tation policies over the last decade, the net effect of the entire tax system on families' incomes is eroded by payroll and income tax liabilities. According to the Minnesota State Office of the Legislative Analyst, federal and state income and payroll taxes offset about \$1,400 of the \$4,300 state and working family tax credit for a single

woman with two children in Minnesota who works full time at \$8 per hour.

If increasing the income of poor, working, single-mother families, and thereby boosting their children's development and reducing their poverty, are important goals, finding a way to supplement earnings further should

be high on the to-do list of welfare reformers. Fortunately, the cupboard of ideas for accomplishing this is not bare. Below is a summary of some of these ideas, an exploration of other policy approaches for earnings supplementation, and suggestions for a realistic and practical policy strategy that incorporates some of these ideas.

## Earnings Supplementation in Welfare-to-Work Programs

One of the most impressive bodies of new research has tracked a series of programs that are either evaluations of state-implemented welfare waivers or explicitly designed programs for which states desired assessment. The bulk of these studies has been undertaken by the Manpower Development Research Corporation (see [www.mdrc.org](http://www.mdrc.org)). Some of these programs involved mandatory participation in employment services and/or work encouragement, together with earnings supplementation. Many of the programs had neither of these components.

My reading of the research leads to two primary conclusions. First, the programs that mandate participation in employment services or supplement earnings had the largest impact on the employment and annual earnings of recipients. Second, nearly all of the programs that have resulted in both increased employment and/or earnings and family income offered direct (and often substantial) earnings subsidies to these low-skill workers. Few programs without such supplements accomplished both increased work and increased family income. Finally, those programs that have resulted in both increased employment and total income have had substantial and positive effects on school-age children. According to Arloc Sherman of the Children's Defense Fund, "Every program that substantially lifted income had mostly good effects on children." Those programs that failed to result in increased income did not provide earnings supplementation.

The primary earnings supplementation programs that demonstrate this are the Canadian Self-Sufficiency Program (SSP), the Minnesota Family Investment Pro-

---

**Over 30 percent of children of lone parents lived in poverty, even when federal earnings supplements and Food Stamps were taken into account.**

---

### THE ROBERT M. LA FOLLETTE SCHOOL OF PUBLIC AFFAIRS

University of Wisconsin-Madison  
1225 Observatory Drive  
Madison, WI 53706  
(608) 262-3581  
FAX: (608) 265-3233  
E-mail: [comment@lafollette.wisc.edu](mailto:comment@lafollette.wisc.edu)  
Web: [www.lafollette.wisc.edu](http://www.lafollette.wisc.edu)

#### Staff

Donald A. Nichols, Director  
Melanie Manion, Associate Director  
Craig Allan, Information Systems Manager  
Joanne Chapin, Student Services Coordinator  
Joyce Collins, Department Administrator  
Alice Honeywell, Publications Director  
Julia Lambert, Student Services Assistant  
Kari Reynolds, Receptionist  
Karolina Nitecka, Career Placement Adviser  
Barbara Prigge, Financial Specialist  
Terry Shelton, Outreach Director  
Shirley Smith, Outreach Specialist  
Mary Woodward, Outreach Specialist

#### Centers of the La Follette School

Center for Research on the Wisconsin Economy  
Center for Wisconsin State, Local, and Tribal Governance

#### The La Follette School has a cooperative relationship with

The Industrial Relations Research Institute  
The Institute for Environmental Studies  
The Institute for Research on Poverty  
The International Institute  
The Wisconsin Center for Education Research

The *La Follette Policy Report* is a semiannual publication of the Robert M. La Follette School of Public Affairs. The School is a nonpartisan teaching and research department of the University of Wisconsin-Madison. The School takes no stand on policy issues; opinions expressed in these pages reflect the views of individual researchers and authors.

This issue of the *La Follette Policy Report* is edited and produced by Juhie T. Shinn

© 2003 Board of Regents of the University of Wisconsin System  
and the Robert M. La Follette School of Public Affairs.



gram (MFIP), and Milwaukee's New Hope Project. According to a review of 16 welfare-to-work programs by Sherman, these were nearly the only programs that yielded an increase of 5 percent or more in recipient income. For welfare recipients, the earnings supplements result in more income by working than by relying on cash and near-cash benefits. Only New Hope covered all families; SSP and MFIP were offered only to those who received or were applying for welfare benefits. While New Hope also offered child and health care subsidies, and MFIP provided employment, training, and job search services, SSP did not. These experimental programs illustrate three approaches to increasing return to work through earnings supplementation. They can be characterized as:

- Income guarantee (welfare) and a graduated earnings subsidy, conditional on full-time work (SSP)
- Income guarantee (welfare), a work bonus, and a graduated earnings subsidy, but no requirement for full-time work (MFIP)
- Job guarantee plus a graduated earnings subsidy, conditional on full-time work (New Hope)

The crucial point is that each of these programs successfully increased both earnings and the total income received by these families. According to calculations based on Sherman's work, on average, the SSP program raised annual income by \$1,909 for adults with children ages 6–12, reflecting higher earnings from work (\$1,209) and work-related supplementation (\$700). The comparable figures for MFIP are: higher income of \$1,307, accounted for by higher earnings from work of \$751 and work related supplementation of \$556.

## **Other Reform Options for Increasing Income from Work**

In addition to the earnings supplementation approaches suggested by these welfare-to-work programs, a number of other strategies have been proposed for simultaneously promoting work and increasing family income. Most of them involve national legislation, and all carry both advantages and disadvantages. The following paragraphs briefly summarize a selection of them and identify their pros and cons.

### *Raising the minimum wage*

A straightforward approach for increasing the returns to work for workers at the lowest wage rates is to mandate statutorily an increase in these bottom wages. Opposition to this approach by economists has been muted by research indicating that adverse employment effects of the policy are not as severe as was earlier believed and feared. Nevertheless, lingering doubts about such legislation persists. Moreover, some research has shown that the benefits of a higher minimum wage do not flow mainly to poor families. These concerns notwithstanding, a higher minimum wage would un-

doubtedly increase the rewards to work for the nation's lowest-skill people.

### *Expanding the Earned Income Tax Credit (EITC)*

So far in this discussion, the Earned Income Tax Credit, itself an earnings supplementation program, has not been front and center. In fact, the EITC provides both incentives to work throughout the lowest earnings levels and nearly \$30 billion of annual income supplementation for several million low-income families. The work-related credits available through the program have been substantially expanded during the 1990s; it is the nation's primary weapon in the effort to make work pay. However, for single mothers who work full time at a wage rate of \$8 or more, EITC benefits are largely or fully offset by federal and state taxes (primarily, the payroll tax). This is true even when the case for exempting these poorest of the nation's families from taxation on their earnings is strong. When welfare checks are not taxed but paychecks for low-wage workers are, the effect of the entire tax system—both work-related credits (e.g., the EITC) and taxes on earnings—in making work more attractive than receiving benefits is eroded.

Expanding the EITC, however, could provide additional earnings-related income to working poor families. Observers have suggested several ways to extend this program. One option is to add a second benefit tier to the EITC, which would be available only to full-time workers. Given the average wage rate earned by low-skill single mothers of about \$8 per hour, full-time work would result in earnings greater than \$10,000–\$12,000 per year. The additional credit—say, \$2,000—would be available to all EITC-eligible families with earnings up to \$20,000 and would then be phased down much like the current credit. According to Isabel Sawhill and Ron Haskins of the Brookings Institution, targeting this extension on full-time workers would provide incentives for more intensive work activity, similar to the full-time work eligibility criterion in the SSP and New Hope programs.

Another recent study, by Sawhill and Adam Thomas, evaluates the costs and anti-poverty effectiveness of several of them, including options to reduce the marriage penalty implicit in the current program, to increase supplements for large families, to concentrate the supplements on families with children, and to increase the size of the credit for those who work substantial hours. All of these expansions provide substantial income supplementation benefits and could effectively narrow the poverty gap.

A difficulty, of course, is that several of the expansions lead to income supplementation for families well up into the income distribution, where the number of families becomes large. The budgetary cost of such an expansion would be substantial. To control costs, the rate at which the supplementation is reduced and then eliminated as earnings increase could be increased. This option, however, imposes increased marginal work dis-

incentives over a range of earnings that is already encumbered by high marginal tax rates.

### *Integrating existing tax benefits into a reformed tax structure*

Until 2001, low-income families with children received work-supporting tax benefits from three primary sources—the dependent exemption, Child Care Tax Credits, and the EITC. In 2001, the Child Tax Credit (CTC)—a partially refundable child credit of \$600 per child, increasing to \$1,000 per child by 2011—was added to this arsenal. The annual budgetary cost for this constellation of programs is about \$90 billion. This package of work- and children-conditioned supports provides substantial assistance to low-earning families and encourages full-time work for low-wage workers.

The work-promoting effects of these programs, however, are tarnished by two other characteristics. First, the combination of benefits has a U-shaped distribution, favoring poor and upper-income families relative to near-poor and middle-income families. Moreover, the combined structure of these programs creates large marginal work disincentives for middle-income parents.

A variety of options for correcting these problems exists, though all involve additional budgetary costs. A proposal by economists Max Sawicky, Robert Cherry, and Robert Denk suggests an interesting integration and simplification plan involving what they term a unified “Simplified Family Credit.” In place of the dependent exemption for children, the CTC and the EITC, they suggest a single, expanded, refundable credit program for families with children. As earnings increase from zero to \$7,000, there would be a 50 percent supplementation rate, up to a maximum credit of \$3,500. Between earnings of \$7,000 and \$16,000, the credit remains constant and then phases out at a rate of 10 percent over the range of earnings from \$16,000 to \$36,000. At this point, the credit is \$1,500 (approximately equal to the value of the CTC and the dependent exemptions), which would apply to families with earnings greater than \$36,000. This example is for a family with one child. The proposed schedule for larger families would be scaled up, with a maximum credit for families with two children equal to about \$5,200, and a maximum credit for a family of three or more children equal to \$7,000. The marginal supplementation rate and the marginal phase-down rate would remain the same as the one-child family example.

This integration and simplification would increase the amount of earnings supplementation, which would yield more total income associated with work for the nation’s poorest working families. It would also provide in-

creased support to middle-income families, thus mitigating to some extent the existing U-shaped distribution of benefits. Moreover, the sizable marriage penalty that exists in the current arrangement would be reduced, especially for single parents. And it would achieve substantial simplification of the federal tax code, requiring a single table rather than calculations involving three separate tax subsidies. The increased income supplementation, of course, costs money. The basic plan (without additional credits for more than one child) is estimated to cost about \$7 billion in tax year 2001.

### *Removing poor working families with children from the federal tax rolls*

Since the mid-1990s, welfare reform together with a high employment economy led to a large-scale substitution of earnings, subject to the payroll tax for untaxed welfare benefits for low-skilled parents, especially welfare leavers. As a result, the total federal tax burden imposed on low-earning families has grown. A more modest proposal than the

Simplified Family Credit, this policy change would fully remove poor families with children from federal tax liability. Providing full refundability of the employee portion of the payroll tax on the first \$10,000

---

**The case for a modest increase in the minimum wage has been strengthened by recent research indicating that the disemployment effects of this policy may have been over-stated in past debates.**

---

of earnings of one parent of families with children earning less than \$15,000 per year (with the amount of the refund being reduced as family earnings increase beyond \$15,000) is one way of accomplishing this. Such a plan would provide nearly \$800 per year of valuable income supplementation to working poor families with children and would do so in a way that encourages full-time work for one parent in each family and at a modest budgetary cost.

### *Adoption of a marginal employer-based employment subsidy*

So far, all of the policy measures discussed directly supplement the market earnings of low-wage workers. By making work pay, they seek to increase both the incomes of these workers and the supply of labor. To be successful, the demand for the services of these workers must be sufficient to absorb any increase in their supply. Hence, complementary, demand-side measures can also play a role in increasing the reward for working. One such measure involves financial incentives to employers who hire low-skilled workers over and above the amounts that they would otherwise. One form of employment subsidy targeted on enterprises might work as follows: Let’s say the government would provide a tax credit (or other financial subsidy) to any enterprise

*continued on page 14*

# Linking Campaigns and Policymaking in Wisconsin: Heading Down a Slippery Slope

**Dennis Dresang**

*Dennis Dresang is a professor of political science and public affairs and director of La Follette's Center for State, Local, and Tribal Governance at the University of Wisconsin–Madison.*

In their efforts to help candidates in targeted campaigns get elected, leaders in the Wisconsin state legislature appear to have corrupted both the electoral and the legislative processes. And according to criminal complaints filed in mid-October 2002, they have committed felonies. Proposals for campaign finance reform promise to varying degrees to reduce the role of money and to level the playing field for candidates. These proposals, however, miss the central issue in the scandals that have rocked politics and governance in Wisconsin—that is, in order to retain their positions of power, legislative leaders were apparently soliciting money and allocating resources in attempts to determine election outcomes. If true, this is a new role for legislative leaders. In any case, it has led to a consolidation of power and to a departure from Wisconsin's tradition of good government.

Wisconsin has long been identified with sparkling clean government. Observers of ethics in government have marveled at what qualifies as a scandal in the state. Infractions have been few, and they have been rather minor. In 1978, for example, a prominent legislator used a state telephone to make a long distance call to his son. Critics were merciless over this private use of a public resource, and he retired from politics. The state remained virtually scandal-free until 1990. Then, in a more serious breach, a legislator used the credit card of a lobbyist to go to a ball game in Chicago. It was bad enough to use the credit card, but the crime was made worse by rooting for a Chicago team! He also ran up a bill on a lobbyist's account at a restaurant and pressured a lobbyist for cash. That legislator resigned his position and spent 60 days in jail. Other than another arrest of a legislator for possession of marijuana, no other public misdeeds by state officials came to light until the late 1990s.

In contrast to the record of generally clean government, a breach of ethics allegedly occurred in every branch of state government between 1997 and 2002. Brian Burke, a former co-chair of the legislature's Joint Finance Committee, has been indicted on 18 felony counts. Scott Jensen, former speaker of the Assembly, has been charged with three felonies and one misdemeanor, Chuck Chvala, the former Senate majority leader, with 20 felonies, and Steve Foti, Assembly majority leader, with one felony. The John Doe investigations that led to these criminal complaints may produce even more. In addition, a State Supreme Court justice has had to pay a fine for violating the law in his election campaign. A catalog of campaign contributions solicited for

favorable treatment has tarnished the record of a governor. In their eagerness to get and retain top positions in state government, officials may have violated laws and norms that had served to keep Wisconsin clean.

## The Birth of Clean Government

Wisconsin's record of clean government dates from the victory of Robert M. La Follette, Sr., and his progressive followers. When he took office in 1900, he replaced a powerful and corrupt machine headed by Philetus Sawyer, Henry Payne, and John Spooner. Like other political machines, the one that took hold of Wisconsin in the aftermath of the Civil War was noted for patronage, bribes, and kickbacks. The classic story is of La Follette's decision to fight the machine when Sawyer asked him to carry a bribe to his brother-in-law, who was a judge about to rule on an important case involving the railroads. As governor, La Follette introduced the direct primary, civil service, recall, and other institutional reforms designed to destroy and prevent machine politics. He also ushered in an era in which public expectations of their government officials rose—that they would serve with integrity and meet high ethical standards.

These changes were reinforced over the years with electoral laws and lobbyist disclosure requirements. Legislators imposed on themselves a prohibition against accepting anything of value from those who sought to influence their deliberations.

Lobbying has been a regulated activity in Wisconsin since 1858. Since 1947, lobbyists have been prohibited from trying to influence legislative behavior by promising support or opposition in future elections. In 1973, the Ethics Board was created to administer codes that applied to state officials and to lobbyists, including requiring lobbyists to register and identify their clients and their expenditures. Ethics legislation also covers economic conflicts of interests for state employees and requires financial disclosures from those who have responsibility for spending state funds. The six members of the Ethics Board are appointed by the governor with Senate consent and may not have partisan affiliations. They serve staggered six-year terms.

The legislature created the Elections Board in 1974 and at the time enacted a comprehensive campaign finance disclosure law. The Elections Board administers and enforces the state's election and campaign finance laws. Its concern with illegal contributions to campaigns

is primarily from the vantage of the campaign, whereas the Ethics Board approaches this by looking at the individual or organization making the contribution. The Elections Board consists of at least eight members: one appointed by the Republican Party, one by the Democratic Party, one by the Senate majority leader, one by the Senate minority leader, one by the Assembly speaker, one by the Assembly minority leader, one by the Supreme Court chief justice, and one by the governor. Should another political party have a candidate who receives at least 10 percent of the votes cast, that party would also be able to designate a member. The Libertarian Party met the 10 percent threshold in the 2002 elections. All members of the Elections Board serve two-year terms.

## The Scandal Involving Legislative Leaders

Only recently have the job descriptions of speaker of the Assembly, Senate majority leader, and the two minority leaders included raising money and allocating resources to specific legislative campaigns. Now a litmus test for legislative leaders is their success in retaining and expanding the number of seats their party controls. The indictments against former leaders Chuck Chvala and Scott Jensen accuse them of directing state employees—on state time and of using state resources to work on targeted campaigns and, in Chvala’s case, of shaking down lobbyists for money in return for desired legislative action.

### *Use of state employees in campaigns*

In 1963 the Wisconsin legislature established staff for each of the partisan caucuses in each chamber. This was part of a program funded by the Ford Foundation to improve state legislatures. The caucus employees analyzed bills, authored press releases and speeches, and helped with constituent correspondence. The rationale given for having caucus staff was that legislators needed to have partisan analyses and constituent work so that the political parties might more effectively pursue their respective interests and engage in informed, articulate debate.

Legislators did have staff assistance from sources other than the caucuses. In 1947, the legislature established the Legislative Council to provide analyses of potential and proposed legislation. Other legislative agencies—the Legislative Reference Bureau, the Legislative Fiscal Bureau, and the Legislative Audit Bureau—also study bills and audit state programs. In addition, individual legislators have been given a budget to use in hiring staff. In 2002 the legislature had 562 employees—257 in the Senate and 305 in the Assembly.

A study conducted by the Eagleton Institute of Politics of the period from 1966 through 1968 concluded that the caucus staff indeed provided important profes-

sional assistance to Wisconsin legislators. Evaluators noted the explicit ban on political activity. Section 11.36 and 11.37 of the state statutes prohibit caucus staff from engaging in campaign work while on state time or in state buildings. Legislators are also prohibited from assigning, authorizing, or requesting their own staff to work on campaigns while on state time or in state buildings. The report raised a concern that despite these strictures, a partisan-based staff might be used for campaign purposes.

Indeed the concern became a prediction. The staff of the four partisan caucuses grew from four full-time employees (one for each caucus) in 1964 to 28 in 1974, 48 in 1984, and 76 in 2001. The budget for the caucuses in 2001 was \$3.9 million. The growth in the caucus staff coincided with a growth in the number of other legislative aides. Gradually, more and more of the constituent work and bill analyses was completed by staff to individual legislators, and by 1995 the caucus staff had become a resource available to legislative leaders for campaign

work. The legislators who were elected to lead each of the caucuses designed strategies to retain or achieve majority status and then implemented the strategies by allocating caucus staff to targeted legislative campaigns.

Beginning in the mid-1990s, a citizen watchdog group, the Wisconsin Democracy Campaign, expressed concern about the use of caucus staff for help in running campaigns. In the fall of 2000, the Wisconsin Democracy Campaign provided major state newspapers with a detailed and documented listing of violations of the prohibitions of employees doing campaign work on state time and with state resources. The *Wisconsin State Journal* and *Milwaukee Journal Sentinel* then began their own investigation. On May 20, 2001, the *Wisconsin State Journal*, Madison’s largest newspaper, reported that they had confirmed that caucus employees were indeed doing campaign work while on the taxpayer-supported payroll. The *Wisconsin State Journal* named Lyndee Wall, who was on the Republican Party caucus staff in the state Assembly, as a key whistleblower who helped document the story. The *Milwaukee Journal Sentinel* began its investigation and coverage almost six months after the *Wisconsin State Journal*’s.

### *Ethics and Elections Board investigations*

The watchdog and newspaper actions prompted action by the Ethics Board and the Elections Board. These agencies also announced that they were going to investigate the campaign activities of caucus staff and legislative leaders.

Two developments intervened, however, and neither board proceeded with an investigation. First, the speaker

---

**Instead of taking action to restore integrity in state government, however, the Ethics and Elections Boards became part of the general scandal.**

---

of the Assembly and majority leader of the Senate, joined by other legislative leaders, met with the boards and proposed that the caucuses be abolished, effective January 1, 2002. Second, the District Attorney for Dane County took action in court to initiate a John Doe investigation. Board members were satisfied with the response to concerns about the misuse of caucus staff, and they deferred to the John Doe investigation of potential criminal misconduct. The media and watchdog groups nonetheless criticized the boards.

On December 8, 2001, the *Wisconsin State Journal* and *Milwaukee Journal Sentinel* together filed suit against the boards for not providing them with records leading up to the settlement negotiated by Senator Chvala and Speaker Jensen. The newspapers accused the boards of violating Wisconsin open record laws. The response of the boards was that investigations of criminal activity were exempt from those laws. The judge assigned to the case personally read the documents stating what the boards were withholding, and he concluded that neither board had even begun an investigation before reaching the settlement with the legislative leaders. He ordered the boards to release the records to the newspapers.

Candidates in the 2002 election proposed that the Ethics and Elections Boards be replaced. The boards were criticized not only for the settlement that they had reached but also for lacking general credibility. Critics were especially concerned about the Elections Board, which was particularly suspect because some of its members are appointed by the legislative leaders who are charged with wrongdoing. The Ethics Board enjoys a longstanding reputation for being vigilant and nonpartisan and has been less of a target for reformers.

Most caucus employees were young people who were still in college or recently graduated. Typically they were eager for jobs that got them involved in the drama and dynamics of politics. Working for the caucus was the first step toward getting a job as an aide to an individual legislator or as an employee in a political consulting firm. Although caucus staffers obviously had a responsibility for knowing and complying with the restrictions on campaign activity, they were vulnerable to the directives of the Assembly speaker, the Senate majority leader, and other prominent legislators. Because caucus employees were the ones violating the ban on campaign work, they were the obvious first targets of investigators. The approach taken by the district attorneys was to offer immunity to the staffers in return for their assistance in prosecuting the legislative leaders. With few exceptions, the staffers cooperated. Those who did not cooperate with the investigation are, of course, vulnerable to prosecution.

One of the issues that emerged as part of the John Doe investigations was responsibility for paying the bills for lawyers assisting caucus staff and legislative leaders who came under investigation. By September 2002, the total legal costs were \$778,781 and expected to grow to

over \$1 million. The largest bill was almost \$60,000 for Scott Jensen, speaker of the Assembly. The legislature decided that the state treasury would provide the funds. Attorney General Jim Doyle, however, advised that it would be a violation of state law for taxpayer money to be used for legal help for caucus staff and legislators accused of breaking campaign laws. The legislature ignored the attorney general and was paying the bills. Governor McCallum refused Doyle's request to sue the legislature for paying the legal fees. As governor, Doyle has moved to change this policy.

### *Pay to play*

The scope of the John Doe investigations included both the use of caucus staff for campaign work and the illegal solicitation of campaign contributions. Wisconsin law prohibits the solicitation of campaign contributions on state time and in state buildings and outlaws the promise of legislative action in return for campaign funds. Specifically, the investigation sought to identify whether groups are expected to make campaign contributions in order to get favorable treatment—"pay to play."

The first formal indictment from the John Doe investigation was issued in June 2002, when the Dane County District Attorney charged Senator Brian Burke, a co-chair of the Joint Finance Committee, with eighteen felony counts. Prosecutors cited Burke, who was the universally presumed favorite to win the attorney general's race in November, with directing his staff to campaign on state time, soliciting campaign contributions in his office in return for action on specific legislation, and destroying and altering public records and documents subpoenaed in the investigation. The complaint charges that he told lobbyists for the Wisconsin Dental Association, the Wisconsin Bankers Association, the Wisconsin Realtors Association, and two law firms that he expected campaign contributions in return for legislative action they wanted to see. These conversations allegedly occurred in his office in the state capitol. In June 2002, Senator Burke withdrew his candidacy for attorney general, announced he would not run for reelection, and confined his appearances in public to the courtroom.

In October 2002, three weeks before the election, criminal complaints were filed charging Chuck Chvala, Scott Jensen, Steven Foti, and Bonnie Ladwig, and a legislative aide. While the substance of the charges against the legislators was similar to those in the Burke complaint, there is a fundamental difference in the apparent motivations. Brian Burke was purportedly soliciting money for his own campaign. Chvala, Jensen, Foti and Ladwig were charged with generating money to fund the campaigns of other candidates. Likewise, they were allegedly directing staff to work for candidates other than themselves.

Chuck Chvala had the dubious honor of having more felony charges than anyone else—20, including misconduct in office, making false reports of campaign expen-

ditures, and extortion. The extortion charges refer to the pay-to-play practice. According to the indictment, Chvala told lobbyists for the Wisconsin Realtors Association, the Wisconsin Wholesale Beer Distributors, Golden Rule Insurance Company, and others that they had to make contributions to particular campaigns or campaign funds in order to get the legislative action that they desired. Chvala was allegedly extorting money from sources that tended to support Republicans and in a number of cases, according to the charges, insisted that they give to a Democrat an amount equal to what they had given to a Republican.

The Republican leaders in the Assembly faced a substantive equivalent to the pay-to-play charges against Chvala. They, of course, did not need to threaten those who had a practice of contributing to Republicans. What Scott Jensen did, according to the indictments, with the cooperation of the other Republican leaders, was hire Sherry Schultz as a legislative employee and then assign her to work as a fund-raiser, on state time and in a state office, for Republican candidates. Schultz was named in the same criminal complaint that included Scott Jensen and was charged with the felony of misconduct in public office.

The general sense that campaign contributions are linked to favorable governmental actions extends beyond the legislature. The *Milwaukee Journal Sentinel* ran several series during the period when Tommy Thompson was governor (1988–2000) comparing who contributed to his campaigns and who was getting state contracts and tax exemptions. A series that the newspaper ran November 2–5, 1997, for example, included several specific examples of the governor’s campaign soliciting contributions just prior to the state providing contracts, loans, and services to the contributors.

The Wisconsin Democracy Campaign produced tables with similar analyses. Their data covered instances that involved Governor Thompson, Governor McCallum, and various state legislative leaders. Although these stories do not prove that in fact there were conversations and negotiations about a quid pro quo between campaign contributions and desired actions, the timing of contributions and favorable actions suggests pay-to-play dynamics.

Wisconsin’s recent history of election misconduct has touched the judicial branch as well as the executive and legislative. The 1997 election of Jon P. Wilcox to the Wisconsin Supreme Court included a campaign violation identical to one of the felony charges in the complaint filed against Chuck Chvala. The issue here was the effort of a group supporting Justice Wilcox’s candidacy that was coordinated with his campaign. The group claimed that it was independent of the campaign, and therefore

its expenditures did not need to be reported by the candidate and its activities were not covered under regulations relating to candidate campaign organizations. Wilcox and his campaign officials initially denied that they had communicated with the organization to coordinate activities. During the Elections Board investigation, however, they acknowledged that in fact the group did not act independently, and they agreed to pay a fine. There were no further repercussions, and Justice Wilcox continues serving on the court.

### *Patron-client corruption*

All of the apparent recent lapses of public integrity have been in the pursuit of political power, not private gain. No political figure has grown wealthier as a result of these incidents. Individuals have, however, been elected to office and to leadership positions in the legislature, and private interests appear to have secured special treatment.

The pattern of clean politics in Wisconsin thus appears to have been replaced by patron-client politics. One dimension of patron-client politics in the state is the connection between legislative leaders and legislators (or candidates for legislative seats). Another dimension is the relationship between legislative leaders and interest groups. In both instances, legislative leaders act as patrons who provide their clientele with something of essential value. Candidates need money and workers. Interest groups need legislative action (or inaction). Follow the money. Interest groups provide campaign funds as directed by the Assembly speaker and the Senate majority leader. Jensen and Chvala did not appear to be seeking funds for their own campaigns, but for use by their colleagues. As the criminal complaints detailed, they recorded and tracked the contributions, presumably so they could be sure which interest groups gave what amounts of money. In acting as conduits for the funds, they at times wanted to see the checks—even when made out to someone else’s campaign fund—rather than have the checks sent directly.

Checks went to specific candidates as well as to so-called independent committees, like the Independent Citizens for Democracy, Future Wisconsin, Citizens for Working Families. Legislative leaders also solicited funds for campaign committees that are established by each partisan caucus in each of the chambers. There are far fewer restrictions on contributions to legislative campaign committees controlled by legislative leaders than contributions to individual candidates. That practice has often been justified as “party building.” But rather than strengthening the party, these funds served to enhance the power of legislative leaders. The taxpayer-supported caucus staffs were another resource

*continued on page 16*

---

**All of the apparent recent lapses of public integrity have been in the pursuit of political power, not private gain. No political figure has grown wealthier as a result of these incidents.**

---

# Delinquency Prevention: The U.S. and Great Britain

by Yoshiko Araki, Scott Braunschweig, Alex Conant, and Russ Dabel

*A full-length report, on which this article is based, resulted from collaboration with Mr John Russell, Labour Attaché in the Economic Department of the British Embassy, Washington, D.C. The authors, supervised by Professor Melanie Manion, were enrolled in Public Affairs 869—Workshop in Program and Policy Analysis, International Issues. Their assignment was to evaluate juvenile programs in the United States that showed potential for transfer to Great Britain. The full version of the paper won an award for “best student paper” presented by the Journal of Public Affairs Education.*

**D**isruptive behavior and juvenile crime are major sources of concern in Great Britain. Criminal damage, theft, youth violence, alcohol and drug abuse, and truancy are all common behavior among British youth. The 1998–99 Youth Lifestyles Survey, conducted by the British government, reported that over one-fourth of youth ages 14 to 17 had committed a crime in the past year. In 1996, British officials estimate that public services spend about £1 billion every year processing and dealing with offenses by young people.

Children begin to exhibit disruptive behavior in their early teens, usually committing their first offense around age 14. During this period, teens begin to abuse drugs and alcohol. For example, only 1 percent of 11-year-olds admitted to having used drugs, while 31 percent of 15 year-olds did. Recidivism is also a serious problem, given that 10 percent of youth are responsible for almost half of all admitted offenses. Several indicators also suggest that disruptive behavior is rising among secondary school students. For example, the number of 10–17-year-olds cautioned or convicted of drug possession (excluding hard drugs such as cocaine) increased by 38 percent between 1996 and 1999.

Several studies in Great Britain have identified background and lifestyle factors associated with delinquency. Similar to conclusions of studies in the United States, they find that other disruptive behavior including substance abuse and truancy are most often linked with youth offenses. Family problems, alienation from school, unemployment, poverty, and living in certain geographic areas are identified as “risk factors.” In addition, the more risk factors a child possesses, the higher is the likelihood of that child being involved in persistent offending. For example, while only 8 percent of boys aged 12 to 17 with two risk factors are categorized as persistent offenders, 57 percent of boys facing four or more risk factors are persistent offenders.

Similarly, certain background or lifestyle factors are associated with non-criminal behavior—so called “protective factors.” Strong family relationships, good school performance, good attitude toward school, good communities, and employment are all associated with mini-

mal persistent offenders and minimal youth offenses in general.

Delinquency prevention programs seek to decrease delinquent behavior among youths. They do this in a variety of ways, including interventions that focus directly on the behavior itself and the factors that influence a youth’s behavior. Schools, families, and community spaces represent principal environments for youths between the ages of 12 and 17 and therefore are critical arenas for reducing contributing risk factors and strengthening protective ones. Delinquency prevention programs also focus on strict prevention with general or at-risk populations. They seek to improve school, family, and community environments by attempting to develop youths’ skills and improve their attitudes. Other programs focus on reducing recidivism with young people by

focusing on rehabilitation and often offering intensive prevention services.

Schools are a major focus of the renewed crime prevention efforts in Great Britain. The British government has implemented an array of policies to attack truancy and other poor behavior that also target contributing factors such as exclusion and unemployment. Tougher penalties, greater coordination with local law enforcement, and expanding educational services are all part of this increasingly expensive effort. Schools spend between £10 million and £66 million to patrol and prevent disruptive behavior in schools. Taking into consideration the differences between school systems and recent British efforts to address problems, we looked for successful programs that might supplement or increase the effectiveness of British measures.

Much like in the United States, government and voluntary agencies run family and youth services in Great Britain. The services are often connected to broader social service agencies or other institutions such as health clinics and schools. Family services concentrate on parents with children under five, who are three times as likely to be targeted as families of children ages 11 to 15. There are many barriers to services, including lack of information, fees, the need for referrals, inflexible hours, and a lack of coordination with other services.

---

**Strong family relationships, good school performance, good attitude toward school, good communities, and employment are all associated with minimal persistent offenders and minimal youth offenses in general.**

---

In Great Britain, recent reports have emphasized the importance of home and school cooperation and community involvement at the secondary school level. Community-wide cooperation among businesses, community-based organizations, and local governments have become increasingly popular. Nokia, for example, funded the Children and Youth Partnership Foundation, which started a program in 2000 called “Make a Connection—Helping Young People to Connect with Them, Others and Their Communities.”

## School-Based Interventions

Serious violence and gang behavior that have become associated with schools in the United States have not reached the same levels in Great Britain. Even so, fighting, truancy, and other disruptive behavior have become increasingly common. Recent government figures show that 40 percent of street robberies, 25 percent of burglaries, 20 percent of criminal damage, and one-third of car thefts were carried out by 10–16-year-olds during school hours.

School-based programs in the United States focus on making schools safer places. The Safe and Drug-Free Schools Program—an information-sharing and grant-funding program—is the federal government’s primary

vehicle for reducing violence and drug, alcohol, and tobacco use through education and prevention activities. Programs that make schools physically safer are often coupled with programs aimed at building social skills, changing attitudes toward school and society, and creating strong social networks. Three programs in particular demonstrate features that make them replicable in Great Britain. The School Transitional Environmental Program (STEP), widely implemented in various cities, focuses on preventing truancy and delinquency among juveniles in transitional periods of life, such as when they switch schools or experience life-altering events. Project Positive Action through Holistic Education (PATHE), first implemented in Charleston, South Carolina, and now widely replicated, is a comprehensive program aimed at increasing students’ bonds with secondary schools. The premise behind PATHE is that if students have improved respect for educational attainment, they will be less likely to engage in juvenile delinquency. Using a different model, the Seattle Social Development Program seeks to help teachers and parents recognize high-risk students and develop appropriate responses.

Table 1 summarizes these programs’ features. School-based programs work best when they coexist with community-based and family-based programs, when they target at-risk students, and when they strive

**TABLE 1**  
**SELECTED SCHOOL-BASED PROGRAMS**

	<b>School Transitional Environmental Program</b>	<b>Project Positive Action through Holistic Education (PATHE)</b>	<b>Seattle Social Development Program</b>
<b>Strategy</b>	Change in school environment	Change in youth attitudes toward school	Teacher, parent skill training
<b>Target group</b>	Students switching schools or experiencing other life-altering event	All students with increased attention for at-risk students	All students
<b>Success</b>	Improved grades Increased attendance Increased graduation rates Improved attitudes Fewer dropouts Fewer reported problems with drugs and delinquency	Improved student attitudes Increased attendance Improved grades Decreased delinquent behavior and drug use	Improved communication between students, parents and teachers Fewer reported problems with delinquency, sexual activity and drinking while driving
<b>Key components</b>	Increase student accountability Enhance student understanding of rules and expectations Focus on students in transitional periods	Program especially sensitive to needs of at-risk students, providing them with extra mentoring, tutoring, peer counseling, special attention	Long-term training beginning when youth are in elementary school
<b>Transferability</b>	All students may be vulnerable when switching schools	Replicated in various diverse settings. Improved student attitudes will always lead to improved student performance	Necessary skills are universal, easy to transfer

**TABLE 2  
SELECTED FAMILY-BASED PROGRAMS**

	<b>Functional Family Therapy (FFT)</b>	<b>Strengthening Families Program (SFP)</b>	<b>Multisystemic Therapy (MST)</b>	<b>Abolish Chronic Truancy Now (ACT Now)</b>	<b>Families in Need of Support (FINS)</b>
<b>Strategy</b>	Family therapy	Parent and adolescent training	Comprehensive: family therapy, parent training, cognitive behavioral therapy with youth	Comprehensive: parental sanctions, family counseling, family therapy, family training	Family and youth counseling
<b>Target group</b>	At-risk high school students/offenders	At-risk high school students/offenders	Offenders, including serious	Truants	At-risk high school students and/or offenders (best for less serious cases)
<b>Success</b>	Reduced recidivism Reduced reported substance abuse Cost compares favorably to similar programs	Lowered substance abuse Reduced conduct problems Increased resistance to peer pressure Increased parental affection and support shown More appropriate limits set by parents	Reduced out-of-home placement Reduced recidivism Reduced mental health problems Survey reported improvements in family relationships Cost effective when reduced residential placements are considered	Increased attendance Reduced dropouts	Reduced rates of delinquency Reduced rates of recidivism Reduced rates of residential placement Low budget
<b>Key components</b>	Systematic approach Ability to adjust to each family's situation	Individual parent and youth sessions followed by session together Focus on family relationships	Addresses various aspects of juvenile's life Intense Family members participate in planning treatment Home visits	Clear and consistent goals, rules, policy, and procedures Annual training for key school administrators Use of sanctions as leverage Coordinated response Effective media coverage of the program and truancy	Uses volunteers Provides parents opportunities to be heard and obtain information
<b>Transferability</b>	Clear guidelines Training available Replicated in over 50 sites in 15 states in U.S. Also successful in Sweden	Clear and structured program Replicated in various urban and rural areas in the Midwestern United States	Clear and structured program May already be present in Great Britain Replicated in various areas across the United States and Canada	Works well with health care services Relates to Parenting order in 1998 Crime and Disorder Act	Very simple premise that fits British need (basic information, support, and guidance) Dependent on local source for volunteers

for early prevention. The best programs incorporate parents into their children's academic lives: By increasing communication between parents and teachers, schools can hold students more accountable for their actions, thereby improving attendance and grades.

## Family-Based Interventions

Research consistently shows an association between delinquency and household factors including parental behavior, conflict, and disruption. Family-based interventions serve to counteract or mediate these negative influences by improving family relationships, parenting skills, and children's mental health. They generally use two approaches to achieve these goals. The first promotes greater parental accountability for a child's behavior. The second provides parents with better resources and skills in working with their children. These approaches are often combined in more comprehensive strategies or coexist as two different, most often mutually reinforcing, policies. These programs appear to be popular in their application in the United States, especially in schools and specifically in locations where juvenile delinquency is common. In Great Britain, the parenting orders, part of the Crime and Disorder Act of 1998, fall under this approach. Despite the popularity of these programs, they have faced some criticisms: parents often lack the ability to control their own children, poorer families may be unable to cover sanctions, and the effectiveness may not be lasting.

Functional Family Therapy, developed at the University of Utah, concentrates on family dynamics and addresses multiple components of adolescent lives. The program has shown good results and has been cost effective. ACT Now is a comprehensive truancy reduction program. Begun in Arizona in 1994, it has gained wide acceptance for its effectiveness in lowering dropout rates.

The Strengthening Families Program (SFP 10-14) was developed in a clinical research program to combat juvenile delinquency: It involves seven two-hour family training sessions. Multisystemic Therapy uses family therapy, behavioral parent training, and cognitive behavioral therapy to build family and youth skills. The Families in Need of Support (FINS) program began in Rockland County, New York, targeted to young people, often repeat offenders, who are required by the court to participate. FINS provides six months of intensive services. Table 2 briefly describes these programs.

Despite their range, successful family-based programs are more often than not directed at young offenders and their families. Although this has much to do with the critical part that family-based programs play in the successful rehabilitation of young offenders, it also

comes from the inherent difficulties in implementing such programs because of their intrusive nature and potential for negative stigma. The potential for stigma and dependence on family participation (frequently with families who do not want to participate) makes the coordination, administration, and public relations aspects of family-based programs extremely important. The five programs described here rely on clear systematic procedures carried out by competent, organized staff.

## Community-Based Interventions

Community-based interventions are the most diverse in their design and goals. Nonprofit organizations, schools, governments, religious groups, and other community institutions are frequent sponsors of delinquency prevention programs, which range in length, funding, and scope. Some community-based interventions, such as YMCA, Boys and Girls Club of America, and 4H Council, have become nationwide programs. Many other programs, however, are fragmented and show, at best, limited success. Typical community-based interventions in the United States include after-school programs, school-within-a-school programs, vocational training programs, mentoring programs, youth camps, and skill training programs. Many successful programs are actually a combination of several of these programs.

Although nationwide community-based organizations are very important and have significant strength in terms of sustainability and administrative strength, their activities vary greatly from one jurisdiction to another. Moreover, these organizations are generally located in urban areas and provide services only to those who join voluntarily. The programs highlighted in Table 3 are ones targeted at juveniles who may not have access to the large, established organizations.

The Quantum Opportunities Program targets at-risk youth in urban areas. It is a comprehensive, four-year program focusing on small numbers of youths and providing long-term intervention. Participating students receive one-to-one counseling and mentoring. While operation costs are high, QOP is considered a highly successful program for less serious offenders. The Turner Middle School/West Philadelphia Improvement Corps consists of comprehensive programs aimed at improving school attendance rates, parental involvement, and after-school activities and options. The Intensive Aftercare Program (IAP) seeks to reduce the rate of recidivism and conflict among juvenile parolees. This program is widely implemented, particularly because of its flexibility in adjusting to local contexts. The Community Restitution and Apprenticeship

*continued on page 18*

---

**Research consistently shows an association between delinquency and household factors including parental behavior, conflict, and disruption.**

---

# Finance Policy in Wisconsin: Schools, Local Governments, and the Structural Deficit

Professor Andrew Reschovsky has recently written several articles on Wisconsin fiscal issues intended for both policymakers and for citizens interested in public policy. In these papers he has succeeded in making very complex issues understandable. Each article is published on the La Follette School web site ([www.lafollette.wisc.edu](http://www.lafollette.wisc.edu)). A printed version of each is also available upon request from the Publications Office. The articles are briefly described below.

## Wisconsin's School Finance: A Policy Primer

As the graph below shows, over the past decade, the average school property tax rate in Wisconsin declined by nearly one-half. This occurred because of the state's decision to fund two-thirds of school spending while also placing a limit on the rate of growth of school revenues. Reschovsky argues that despite achieving a substantial amount of equity in school funding, the school finance system fails to guarantee that all districts have sufficient resources to finance a high quality education for Wisconsin's children.

Reschovsky suggests that the prospect of reduced state aid because of the state's ongoing fiscal crisis may actually offer an opportunity to reform school funding. This article is essential reading for anyone interested in education finance.

## Wisconsin's Local Government Finance: A Policy Primer

Wisconsin has 1,850 separate municipal governments. This article provides a detailed description of the wide range of public services provided by these governments, and the various sources of revenue used to fund municipal services. Reschovsky details the important role played by Shared Revenue, the state's programs to provide grants to municipal governments in Wisconsin.

He argues that the Shared Revenue program has had limited success in achieving its equity and tax relief goals. Reschovsky concludes that the grant system needs to be reformed, and suggests that a reformed system should ensure that all municipal governments have sufficient resources to deliver adequate public services to their residents at reasonable rates of taxation.

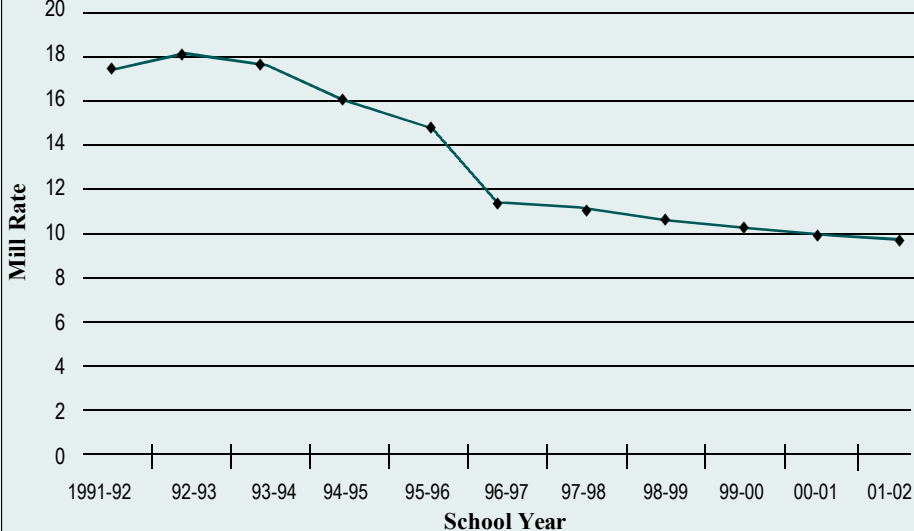
## Wisconsin's Structural Deficit: Our Fiscal Future at the Crossroads

When the amount of money needed to maintain the level of public services currently provided by the state government in Wisconsin exceeds the revenue generated by the current tax system, the state faces a structural deficit. In this article, Reschovsky carefully explains what a structural deficit is and demonstrates how to calculate its magnitude.

He argues that unlike many other states, Wisconsin has deficit problems that predate the current economic slowdown. During the 1990s, the legislature decided to fund two-thirds of public education costs and to institute longer sentences on convicted criminals. These added state responsibilities were not funded by increasing taxes or reducing spending elsewhere. A combination of unexpectedly rapid growth in revenues in the late 1990s and various one-time revenue sources, such as the use of the state's tobacco settlement funds, allowed public officials to avoid the hard fiscal choices that are now facing the state.

Reschovsky argues that even with highly optimistic economic assumptions, economic growth will not generate enough extra tax revenue to eliminate the structural deficit. "We have run out of short-term budgetary fixes and one-time pots of money," he says. Since most economists predict slower growth in the early years of the new millennium than occurred in the 1990s, difficult policy choices must be made. This article assists the reader in understanding the current and future state budget dilemmas. ■

**Average School Property Tax Rates  
1991-92 to 2001-02**



*Haveman continued from page 4*

equal to 50 percent of the first \$10,000 of wages paid to the 50 workers hired in a firm above 102 percent of the firm's previous year's employment. This subsidy arrangement would affect the marginal choices of firms, because it would directly affect their decisions regarding both the level of inputs to hire and their composition.

While this arrangement does not explicitly distinguish among workers by their unemployment or poverty status, the subsidy (and hence the incentive to hire workers) would result in a higher percentage of the wages to low-skilled workers than for more skilled workers. By attempting to expand directly the demand for the services of low-wage workers, this form of employment subsidy would alter the terms on which such workers would be employed, making the hiring of low-skilled workers a more profitable proposition than it is now. It is designed to ensure that jobs are available for the increases in work stimulated by supply side measures.

A number of other proposals have been made to encourage the employment and increase the income of low-skilled workers by either directly assisting such workers in finding and retaining jobs or by making the package of gains associated with increased work more attractive. In the former category, a number of suggestions have surfaced for providing work-related services in the form of child care or transportation assistance or making policies aimed at enhancing work skills for job retention.

Expanding public service employment or reforming the Unemployment Insurance program, such as reducing the time necessary to qualify for benefits or making those who lose part-time work eligible for payments, fall into the second category. In recently reforming their welfare programs, a number of states have directly increased the return to work of welfare recipients by raising "earnings disregards" (the level of earnings not counted in calculating how benefit payments decrease when earnings increase) in calculating cash assistance benefits. Although this measure accomplishes the return to work of those receiving cash benefits, it has the negative side effect of encouraging families to remain on the welfare rolls.

### **Toward Increased Earnings Supplementation for Low-skilled Workers**

Here I suggest a modest, though coordinated, set of policy measures designed to enhance the take-home pay of low-skilled workers and hence the income of their families. The components of this strategy draw upon existing research studies and the lessons of experimental efforts to reform the nation's income support system. While they are separate initiatives, together they form an integrated, work-encouraging, income supplementation plan.

### ***A Modest Increase in the National Minimum Wage***

The case for a modest increase in the minimum wage has been strengthened by recent research indicating that the disemployment effects of this policy may have been overstated in past debates. These findings suggest that a modest increase in the minimum wage can be enacted with little, if any, adverse effect on the demand of employers for the services of low-skilled workers. The current level of the national minimum wage is \$5.15, and it has been stalled at this level since 1997. Since 1968, according to the U.S. Department of Labor, the real value of the minimum wage has fallen by 64 percent. Sawhill and Thomas have found that notwithstanding concerns regarding the targeting of the gains from this measure on poor families, a majority of the income gains from an increase of \$1 per hour to \$6.15 per hour would accrue to families in the bottom one-third of the income distribution and significantly decrease the poverty rate of families whose heads earn the minimum wage. There are no budgetary costs of this measure, and the adverse impacts on businesses and employment seem minimal.

### ***Accelerate the phase-in of the Child Tax Credit (CTC)***

Although the expanded CTC, passed in 2001, ultimately provides \$1,000 of child-related support to families by 2010, and does so in a way that encourages full-time work and reduces the marriage penalty, these effects are muted for the next several years. Work-encouraging support in the near term could be offered to low-earning families by a more rapid phase-in of the plan, perhaps making it fully effective by 2006.

### ***Supplement the Earned Income Tax Credit à la SSP or New Hope***

Either in its current form or if expanded, the EITC could be supplemented for workers with a substantial labor market commitment. This could be done by incorporating elements of either the New Hope or the SSP programs. In both programs, the objective was to target additional earnings-related income supplementation on those workers holding a job requiring at least 30 hours per week (considered full-time workers).

For example, in the New Hope program, the earnings of such full-time workers were supplemented so that when earnings and the supplement are combined with the state and federal EITC, annual household income was near or above the poverty line. Attaining this poverty line objective meant that the after-tax income level of families of full-time workers would be higher than that available with only the EITC in place. The program was designed so that there was always a financial incentive to increase work hours and earn higher wages. The earnings supplement phased out at a slow enough rate so that participants always saw at least a 30 cent increase in total income for each \$1 increase in earnings.

Even though the SSP program was designed for welfare recipients, its structure also offers an intriguing model. As with New Hope, supplementation was avail-

able only for full-time workers (those employed at least 30 hours per week). For these workers, a target earnings level was set. Any worker with earnings below this target amount received a supplement equal to a fraction (say, one-half) of the difference between the target earnings level and actual earnings. For example, if the target annual earnings level for such full-time work were set at \$20,000 while the subsidy rate was 50 percent, a worker earning \$14,000 would receive a subsidy of \$3,000. The person's "take-home" earnings would then be \$17,000. In the SSP program, the objective was to yield supplemented earnings equal to twice full-time minimum wage earnings, or about \$15,500. As such, SSP offered a more generous earnings supplement to full-time workers than did the New Hope program.

Whichever of these "target" supplementation strategies was chosen as a model, it could be viewed as a distinct earnings supplementation program added to the existing or an expanded EITC. Alternatively, the structure of either of these policies could be integrated with that of the EITC to form a single earnings supplementation strategy. Clearly, analytic work would be necessary to ensure consistency among income and family definitions, and to ensure that the combined or integrated structure resulted in a desirable pattern of incentives for work and family structure. Preliminary estimates suggest that an extension of the EITC designed to target earnings-related income gains on those workers with a substantial labor force commitment would simultaneously increase both employment and/or earnings and take-home income of families headed by low-skilled workers, and do so at a modest budgetary cost.

One final question remains: "How much would this cost?" Given the work and earnings supports already in place, the United States could achieve a substantial increase in earnings supplementation with a relatively small cost. One method would involve the consolidation of several existing family-based, work-support programs into a simplified and integrated measure, together with some supplementation. The Simplified Family Credit proposal, described above, is one possibility. In 2003 dollars, the proposal would cost about \$10 billion, and would simultaneously improve work-related incentives, provide additional work-related income supplementation, and target these supplements on near-poor and middle-income families. For \$15 billion to \$20 billion, the nation could expand earnings supplementation even more and achieve a truly work-supportive system for families headed by low-skill workers.

Another way of proceeding would maintain the existing structure of work-based assistance to families, but accelerate implementation of scheduled program expansions and add a special supplementation to encourage full-time work. For an annual budgetary cost of about \$2 billion during the next few years, the Child Care Tax Credit (CTC), which is currently being phased in, could be accelerated so as to be fully effective by, say, 2005. This would provide additional targeted earnings supple-

mentation for low-income families with a full-time worker. Because the CTC has already been legislated, the costs of accelerating its implementation would be experienced only in the first few years, and by 2010 the acceleration would have no effect on budget projections. Combining this with supplemented EITC benefits for full-time workers along the lines of a national New Hope program would yield a significant improvement in work support for families with low-skilled workers who are able to make a full-time commitment to work. For about \$15 billion annually, New Hope-type supplementation ensuring a poverty line income could be provided to all of the more than 3 million poor families with at least one full-time worker. Together, this pair of measures could also be implemented with about \$20 billion additional dollars.

Both of these approaches would yield a sea change in work-related income support targeted on poor families willing to make a full-time work commitment. Combined with a modest increase in the minimum wage, such supplementation would yield a sizable reduction in poverty for working poor families accompanied by noteworthy benefits for many of their children.

## Conclusion

That supplementing the earnings of working poor families will boost their well-being and attainments and promote the development of their school-age children seems clear. The main question, assuming the resolve to reduce poverty through earnings supplementation, is how to structure a set of policies to accomplish this objective. I have summarized some of the evidence on the beneficial effects of earnings supplementation and identified the primary policy instruments for accomplishing this objective. A suggested package of policy changes would surely contribute to making work pay and hence to decreasing poverty in America. ■

## Selected References

- Morris, Pamela et al. 2001. "How Welfare and Work Policies Affect Children: A Synthesis of Research." New York: Manpower Demonstration Research Corporation (Available at [www.mdrc.org](http://www.mdrc.org)).
- Sawhill, Isabel, and Adam Thomas. 2001. "A Hand Up for the Bottom Third: Toward a New Agenda for Low-Income Working Families." Washington, D.C.: The Brookings Institution (Available at: [www.brook.edu/views/papers/sawhill/20010522.htm](http://www.brook.edu/views/papers/sawhill/20010522.htm))
- Sawicky, Max B., Robert Cherry, and Robert Denk. 2002. "The Next Tax Reform: Advancing Benefits for Children." Economic Policy Institute Technical Paper (draft). Washington, DC: Economic Policy Institute. March (Available at: [www.epinet.org](http://www.epinet.org)).
- Sherman, Arloc. 2001. "How Children Fare in Welfare Experiments: The Pivotal Role of Income." Washington, D.C.: Children's Defense Fund.

available to leaders to allocate to campaigns strategically.

Legislative leaders develop a clientele of legislators who are beholden to them as they dole out campaign funds and assistance. Like in any patron-client relationship, there is some interdependency. A leader needs majority support in order to be Assembly speaker or Senate majority leader. Despite the interdependency, the patron is still dominant. Individual representatives or senators are vulnerable to challenges from within their own party sponsored by the speaker or majority leader. Even if not challenged from within their own party, legislators have come to rely on the funds and staff resources directed to their campaigns by legislative leaders.

One of the implications of patron-client relationships between legislative leaders and members of their respective caucuses has been the development of a public policy-making process characterized by a high degree of party discipline and by conflict between two dominant personalities. The Assembly speaker and Senate majority leader have centralized power in each of their chambers. Minority parties have had historically low levels of influence on public policy, and there has been little meaningful debate within the majority parties. Almost everyone is on the back bench. From the outside, public policy-making appeared to have degenerated into personal combat between Chvala and Jensen. From the inside, there were lost opportunities for individual legislators to contribute to deliberations and even at times to represent the sentiments of their constituents. Chvala and Jensen seemed to determine the agenda and the outcomes, mixing strategies for fund-raising with conflicts that were personal and overly partisan.

## Suggestions for Reform

In the aftermath of the criminal complaints and the 2002 elections, state officials pledged to abide by existing laws, restore Wisconsin's reputation for clean government, and end partisan bickering. Such a pledge is important to Wisconsin and its citizens. The general culture in which political dynamics occur is determined in part by the individual and collective expectations that are self-imposed. Scott Jensen and Chuck Chvala did not have to construct patron-client relationships and violate legal and ethical standards as they competed with one another. The system did not make them do it.

Nonetheless, the alleged practices of the past five years have revealed important systemic flaws. Policymakers in Wisconsin would be remiss not to take advantage of the current environment and address these problems. Below are five policy options for bringing about reform:

### 1. Ban legislative leaders from raising money for others

One important step would be to remove legislative leaders from the role of funding any campaign other than their own. The Assembly speaker and the Senate majority leader, as well as other legislative leaders, should be prohibited from soliciting and disbursing funds in order to stay in power. They should be removed as the middle person between lobbyists and candidates.

A major loophole in existing and proposed laws to regulate campaign finance is the ability of legislative campaign committees and individual legislators to garner funds and then distribute them to targeted races. The role of recruiting candidates and seeking financial and human resources to help in their campaigns belongs with political parties, not with legislative leaders. The criminal complaints are essentially a series of charges that legislative leaders used their authority over the legislative agenda and over public employees to manipulate the electoral process. A ban on the practice

of legislative leaders raising money for other candidates would remove the leverage they have in the policymaking process in channeling funds to their favored candidates. Clearly the speaker and the majority leader depend on the results of elections to stay in office, but they should not use their positions to determine the results of those elections.

Legislative leaders should, however, continue to have authority and prerogatives within the policymaking process. If they did not, for example, appoint legislators to committees, designate chairs, and set calendars for considering proposals, leading elected representatives would be like herding cats. But the patron-client relationship that developed in Wisconsin did not provide balance between leadership and representation. Policymakers would do well to unclench the iron fists of our most recent leaders and force legislative leaders to identify and to forge consensus instead of forcing a false sense of loyalty and partisanship.

### 2. Prohibit fund-raising during legislative sessions

Another suggestion is an old idea: prohibit any campaign fund-raising while the legislature is in session. This simple step provides a clear message to both lobbyists and to legislators. The state's newspapers, watchdog groups, and John Doe investigators have identified numerous instances of funds being solicited during legislative deliberations, which has the appearance if not the substance of a pay-to-play operation. Wisconsin Democracy Campaign has been able to identify enough special benefits to groups and individuals who made contributions during the last budget bill to have resolved the deficit without using money from the tobacco settlement.

---

**Policymakers would do well to unclench the iron fists of our most recent leaders and . . . forge consensus instead of forcing a false sense of loyalty and partisanship.**

---

Proof is sometimes elusive in such dynamics, but the principles of clean government require attention to appearance and substance. Wisconsin would be well served by a ban on fund-raising during legislative sessions.

### **3. Protect whistleblowers**

Laws need enforcement. It was Lyndee Wall, a member of the Republican Assembly Caucus staff, who blew the whistle on the use of legislative employees for campaign work. Lobbyists did not blow the whistle on pay-to-play pressures. In the criminal complaints, they state that they felt intimidated. This suggests that more explicit assurances need to be provided so that those who expose wrongdoing will not suffer retaliation. We need explicit protection for whistleblowers and an independent board to receive and consider charges of abuse. The Ethics Board is structured in a way to be effective here. The Elections Board, however, is not. The power of elected officials to name members of this board provides them with an opportunity to influence the board's agenda and the deliberations. Indeed, that was evident in the way the Elections Board mishandled the most recent corruption charges.

### **4. Reform campaign finance**

The newly elected governor and legislature should join in a serious and high-profile effort to provide Wisconsin with meaningful campaign finance reform. For the past several years, we have seen only symbolic gestures by top state officials. No one has acted as though he or she were serious. In the recent budget repair bill, the governor and legislative leaders included a cynical and callous package that appeared designed to be ruled unconstitutional, and it subsequently was. It is not that there are no better proposals.

Some initiatives, like the one sponsored by Senator Michael Ellis (Neenah-R), are responsive to the issues and have bipartisan support. The current program of limited public funding obviously needs to be expanded with new ways of getting candidates to abide by spending limits. Instead of repeating the past patterns of implicit collaboration to avoid campaign finance reform, the new legislative leaders and governor should get serious. It would probably make sense to have the newly elected lieutenant governor direct a joint gubernatorial and legislative task force to propose reforms early enough so they would take effect with the next election.

It is especially important to have campaign finance policies that limit spending and allow for electoral competition if legislative leaders are removed from soliciting and disbursing resources to candidates. Banning legislative leaders from this activity means enhancing the role of candidates and party organizations, and that opens the possibility that those candidates and parties with special access to money might be advantaged. The fundamental need is to reduce the role that money plays in the electoral process and, by extension, the policymaking process.

### **5. Curb television advertising**

Campaign ads on television are closely linked with campaign finance issues. The single most expensive component of a campaign is television advertising. And even the candidates agree that the single most disgusting part of campaigning is television. In the 2002 campaign Wisconsin reached a new low for attack and counter-attack ads that did anything but help voters make an informed choice at the polls. This is not to say that the victorious candidates are not good choices, but rather to acknowledge that the campaigns did little to make sure voters had the information they needed and wanted. Ideally, we would get the U.S. surgeon general to ban television advertising as harmful to our health. Realistically, however, the most we can do is come up with alternatives to current practices.

An important part of the charge to a high-profile legislative-gubernatorial task force on campaign finance reform should be to recommend ways in which television advertising might be curbed. The more than \$20 million that gubernatorial candidates and their supporters spent on television advertising in the 2002 election is far more than was necessary to get their messages (however pitiful) across. Given the population and the markets in Wisconsin, \$3 million is all a candidate needs to spend on a statewide race. The focus of reformers should be on formats and approaches that ensure quality time and limited time on television.

Campaign consulting is now a multimillion dollar industry. Campaign consultants are the folks who write and produce the television ads, even though, of course, candidates have to accept ultimate responsibility for what is aired. In many occupations and professions, self-regulation, government regulation, or both ensure adherence to basic standards and ethics. Doctors, lawyers, morticians, cosmetologists, and tavern owners can lose their licenses and suffer penalties if they engage in malpractice or dishonesty. Perhaps it is time to insist that campaign consultants also be held to a basic code of ethics.

## **Summary**

The scandals that brought down Wisconsin's legislative leaders are obviously a shame. Those involved did not have to make the choices they did, and if proven guilty they should be held accountable. Reports of such misdeeds, however, have exposed some flaws in our system of governance. Some, like the problems with the way campaign are financed, we already knew. Others are newly identified, like the way legislative leaders allegedly used their control of the legislative agenda and legislative employees to help candidates in targeted races and thus enhance the hold they had over legislators. The newly elected governor and legislature have an opportunity to restore representative democracy and clean government to Wisconsin. ■

Focused Training Program (CRAFT) provides vocational training to juvenile offenders. The goal is to prevent recidivism and to teach living skills through work experiences. CRAFT began in Bismarck, North Dakota, Nashville, Tennessee, and Sabillasville, Maryland, in 1994, and since then it has been copied in five other sites.

Table 3 summarizes these community-based programs. Successful programs all share at least four features. First, the establishment of a personal relationship between the youth and the program provider (teacher, mentor, staff) is important. Programs in which a successful person-to-person relationship is established have proven successful in meeting their goals. Second, research, evaluation, and feedback are critical in determining effective program features. In the

United States, successful programs undergo in-depth evaluation by nonprofit research institutions or universities. Such evaluations by third parties provide a seal of approval and also give feedback necessary for improvement. Third, because community-based programs have many components, coordination is crucial. Strong leadership and enthusiasm are instrumental, but professional coordination and administration are vital. Finally, staff training and recruiting are essential. In programs that depend on volunteer staffs, particularly in the areas of mentoring or tutoring, in which the personal relationship is key, a skilled coordinator is required.

### Recommendations

On the basis of this evaluation, we believe the British government should continue to emphasize juvenile

**TABLE 3  
SELECTED COMMUNITY-BASED PROGRAMS**

	<b>Quantum Opportunities Program (QOP)</b>	<b>Turner Middle School/The West Philadelphia Improvement Corps</b>	<b>Intensive Aftercare Program (IAP)</b>	<b>Community Restitution and Apprenticeship Focused Training Program (CRAFT)</b>
<b>Strategy</b>	Comprehensive after school program	University-assisted community school	Aftercare - reintegration treatment program	Vocational training
<b>Target group</b>	At-risk high school students	Youth from disadvantaged neighborhoods	Juvenile parolees and previously incarcerated juvenile offenders	Juvenile offenders
<b>Success</b>	Increased graduation rates Decreased dropout rate Improved self-esteem Increased post-secondary attendance Despite high cost (\$19,000 per student over 4 years) the program was deemed cost effective when all benefits were reviewed	Increased after-school options Decreased school suspensions Increased parental involvement	Improved academic attendance and performance Decreased problems related to drugs, alcohol, and mental health issues	Increased employment opportunities Decreased recidivism
<b>Key components</b>	One-to-one trust between participant and staff Dedication of staff Research-based curriculum Financial incentive Community activities	In-depth involvement of university facilities and students Enthusiasm of volunteers, school principal, staff Parent involvement Attractive curriculum	Focus on transitional period after incarceration or residential placement Facilitate integration and strengthen social networks	Hands-on job training Mentoring and social skill training components Serve as an intermediary between a job and the community
<b>Transferability</b>	Successfully replicated in other sites	Adapted as a model of university-assisted school in many sites in Pennsylvania 2,200 university-assisted schools exist nationally	Flexible design allows for adjustments at local level Training and monitoring in the U.S. allowed for better level replication	Vocational training might be easy to accept in the British society Replicated in 5 sites

delinquency prevention programs aimed at youths between the ages of 12 and 17. The success and replication of a diverse range of programs suggest that many approaches are promising for British policymakers. This said, we strongly recommend programs that address multiple causes of juvenile delinquency in family, school, and community settings, because these programs seem to be most successful in changing disruptive behavior. In addition, we recommend programs that target specific juvenile populations, both to focus on the exact needs of that population and because targeted programs are less expensive. We also suggest that British policymakers and implementing agencies commit to programs with the necessary resources to permit proper coordination, administration, and full implementation to serve the long- and short-term interests of the community. Furthermore, we encourage the continued use of monitoring and evaluating studies so that programs continue to respond effectively to juvenile delinquency and the needs of youth.

Finally, although the full list of programs deserves attention, we strongly recommend the adoption of Functional Family Therapy, Multisystemic Therapy, Quantum Opportunities Project, West Philadelphia Improvement Corps, and the Community Restitution and Apprenticeship Focused Training Program. These projects have

shown strong results in reducing substance abuse, recidivism, and other problem behaviors among at-risk youth and young offenders. They focus on multiple components of a youth's background and lifestyle while providing services to specific populations. These programs are cost-effective, especially when compared to residential placement programs. They have been replicated in diverse locations in the United States, both urban and rural, and they provide clear guidelines and training in their methodology and process. These programs do require a large degree of coordination between service providers, schools, families, and potentially the juvenile justice system. However, the ability of various community agencies, schools, and courts to work together in different locations in the United States suggests that these same networks can also work in Great Britain.

The existence of numerous diverse successful programs in the United States provides in itself great promise for delinquency prevention efforts in Great Britain. That British schools, communities, and national and local government agencies have already undertaken major efforts to prevent and reduce crime and other forms of disruptive behavior does not take away from the advantages of studying the success of programs in other countries. Critical assessment of the experiences of programs implemented can save time, money, and lives. ■

## RECENT FACULTY PUBLICATIONS



### **American Government in a Changed World: The Effects of September 11, 2001**

By Dennis Dresang et al.  
(New York: Longman, 2002)



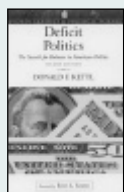
### **Politics and Policy in American States and Communities, 4th edition**

By Dennis Dresang and James Gosling  
(New York: Longman, 2003)



### **The Level and Utilization of Human Capital in the U.S.: 1975-2000**

By Robert Haveman, Andrew Bershadker, and Jon Schwabish  
(Kalamazoo: Upjohn Institute, 2003)



### **Deficit Politics: The Search for Balance in American Political Life, 2nd edition**

By Donald F. Kettl  
(New York: Longman, 2002)



### **Environmental Governance: A Report on the Next Generation of Environmental Policy**

Edited by Donald F. Kettl  
(Washington: Brookings Institution, 2002)



### **Team Bush: Leadership Lessons from the Bush White House**

By Donald F. Kettl  
(New York: McGraw-Hill, 2003)



### **Transformation of Governance: Public Administration for the 21st Century**

By Donald F. Kettl  
(Baltimore: Johns Hopkins, 2002)



### **Changing the Atmosphere: Expert Knowledge and Environmental Governance**

Ed. by Clark A. Miller and Paul N. Edwards  
(Cambridge: MIT, 2001)



### **Business and Politics: A Comparative Introduction, 3rd edition**

By Graham K. Wilson  
(Chatham, N.J.: Chatham House, 2003)

# A Better Corporate Tax?

By David Weimer

*Professor David Weimer is a professor of public affairs and political science at the La Follette School of Public Affairs and in the Department of Political Science at the University of Wisconsin–Madison. This article was originally published in volume 21, number 4 of the Journal of Policy Analysis and Management and is reprinted here with permission. Professor Weimer thanks Andrew Reschovsky, John Witte, Don Kettl, Aidan Vining, and an anonymous referee for helpful comments. They do not necessarily support the policy proposal presented in this essay.*

The U.S. federal corporate tax code often allows corporations earning accounting profits to avoid tax liability altogether. For example, according to an Institute on Taxation and Economic Policy report by Robert McIntyre and Co Nguyen, during the period 1996 to 1998, 41 of the 250 largest American corporations paid no corporate income tax in at least one year, despite having pre-tax earnings of \$25.8 billion in those years. Indeed, by “carrying back” their excess deductions and credits to prior years, these companies actually received \$3.2 billion in rebates. Such reports raise concerns about the fairness of the corporate income tax. Further, economists have had lively debates over the years about the desirability of the corporate income tax itself. In combination with the personal income tax, it nominally represents double taxation of income from capital, though the treatment of capital gains under the personal income tax makes it possible for some taxpayers to delay, or even avoid, paying any taxes on increments to their wealth from stock holdings.

The corporate income tax and its complex provisions also distort investment decisions, according to economists Don Fullerton and Yolanda Henderson, leading to a marginal excess burden, the efficiency losses an economy suffers to raise the marginal dollar of revenue from the tax of between 17 and 56 cents. At the conceptual level, most economists would favor a complete integration of the personal and corporate income taxes, say through annual assignments of profits to stockholders, though they recognize the great administrative costs of doing so. Is there a fairer, more efficient, and less administratively costly way to tax corporations? Perhaps yes: rather than taxing the profits of corporations, tax their capitalized value.

## The Capital Value Tax

The capital value tax would operate as follows. At the end of each trading day, publicly traded corporations would calculate their capitalized values based on the closing prices of their stocks. They would incur a tax liability based on their capitalized value (the total value of their stocks). At the end of each quarter, they would

report their total tax liability and send a check to the U.S. Treasury. Privately held corporations would be exempted from the tax. Instead, they would be treated as “flow-through” entities, in the same way that sub-chapter S corporations are currently treated.

How high would the annual tax rate on capitalized value have to be to generate as much revenue as the current corporate income tax? In 2000, corporations paid \$207 billion in corporate income tax. At the end of 2000, the global market value of domestic operating companies listed on the New York Stock Exchange was \$11.5 trillion; on the NASDAQ it was \$3.6 trillion. An annual tax rate of 1.4 percent applied to this capitalized value would generate about as much as the current tax on profits.

Of course, a 1.4 percent annual tax on the value of an asset is substantial—roughly the order of magnitude of the property tax rate paid by Americans who do not itemize deductions for their federal income tax. Given that a tax on productive capital has direct relevance to levels of investment and therefore rates of economic growth, it is worthwhile putting its magnitude into perspective. It can be thought of as equivalent to a 1.4 percentage point increase in the overall real economic depreciation rate for corporate capital, which is probably on the order of about 10 percentage points. From this perspective, it represents a modest increment to the annual costs firms must pay to maintain their capital stocks.

## Capital Value Tax vs. the Corporate Income Tax

How does the capital value tax compare to the corporate income tax? Using standard criteria for evaluating taxes—revenue, equity, efficiency, and administrative cost—a case can be made for the superiority of the capital value tax.

**Revenue.** The specific rate proposed for the capital value tax makes it equivalent to the corporate income tax in terms of revenue in the short run. As Ellen McGratten and Ed Prescott have pointed out, corporate equity value has grown faster than gross domestic product—nearly twice as fast between 1962 and 2000—due primarily to reductions in the effective tax rate on dividends and the growing percentage of equity held by non-

---

**Differential opportunity to engage in tax avoidance, however, means that corporations with the same levels of accounting profits often pay very different amounts of taxes under the corporate income tax.**

---

taxpaying entities. As the percentage of equity held by non-taxpaying entities is likely to continue to increase for some time, revenue from the capital value tax would likely grow faster than would revenue from the corporate income tax. Alternatively, the rate of the capital value tax could probably be lowered over time and still provide as much revenue as the corporate income tax.

**Equity.** The appropriate basis for assessing equity is much less clear in the case of corporate taxation than it is in the case of individual taxation. Horizontal equity implies treating equals the same way, but equal in what respect? The corporate income tax has greater relative equity in one respect: it treats large, privately held corporations in the same way as publicly traded corporations, while the capital value tax would not. Differential opportunity to engage in tax avoidance, however, means that corporations with the same levels of accounting profits often pay very different amounts of taxes under the corporate income tax. Some of these differences have a basis in provisions reflecting legitimate public policy goals; others are accidental or the result of lobbying. As corporations must be profitable in the long run and yield roughly the same rate of return on capital, the capital value tax might very well increase the long run correspondence between profits and taxes actually paid. The public would most likely perceive the capital value tax as fairer.

**Efficiency.** The corporate income tax imposes costs on corporations, and therefore society, beyond the revenue that they actually send to the U.S. treasury. Avoiding the corporate income tax requires corporations to alter the way they use their resources to realize the various loopholes. The capital value tax would virtually eliminate these components of marginal excess burden. Its major cost would be in discouraging some privately held corporations from going public.

The corporate income tax probably has some relative advantage in terms of macroeconomic stabilization—corporate profits respond more quickly to downturns in the economy than stock prices, so that the corporate income tax is more counter-cyclical than the capital value tax. On the other hand, a temporary reduction in the rate of the capital value tax would provide a very direct and fast way of stimulating the economy during recessions.

**Administrative Cost.** Complying with the corporate income tax and exploiting preferences and loopholes to

the maximum extent possible requires small armies of lawyers and accountants. In addition, the complex rules for measuring depreciation and other business costs make auditing by the IRS very difficult. In comparison, the administrative cost of the capital value tax would be much less. Further, because the personal rewards to CEOs are usually tied to stock values, they would have a personal incentive not to try to manipulate stock prices to reduce tax liabilities. For administrative savings to be fully realized by corporations, however, it would be necessary for states to tie their business taxes to the capital value tax as they now tie them to the corporate income tax. States could simply select an increment to the tax rate as a replacement for their income taxes on publicly traded corporations. Aside from saving their own administrative costs, states would probably find the relative stability of revenue from the capital value tax attractive in reducing the fiscal stress they encounter during economic downturns.

## Political Economy

The political process might also benefit from eliminating the corporate income tax code. The “Gucci Gulch” of lobbyists observed during the 1986 tax reform debate was only the unusually visible efforts of corporations to gain special treatment under the tax code. Switching to the capital value tax would make the corporate tax code much simpler and provide a clean slate that could be more easily monitored by the press and public for special favors. Recent changes in the rules governing campaign contributions no longer allow corporations to give large donations of “soft money” to national political parties. Nevertheless, as long as there is a desire to influence tax writers, some other form of contribution is likely to arise. An effective way of reducing the influence of corporate money in campaigns is to remove the incentive corporations have to influence the details of the corporate tax code.

Yet the most relevant question of political economy is whether a sufficiently large number of corporations would find the capital value tax more desirable than the corporate income tax. This question cannot be answered without first injecting the idea of the capital value tax into public discussion. ■

---

## DIRECTOR'S PERSPECTIVE *continued from page 1*

trenches of governance. Not only do our faculty conduct some of the best and most basic research on important public problems—the identification of new solutions or insights—but they are also heavily engaged in the face-to-face delivery of expertise to elected and appointed officials.

In recent years, La Follette's relatively small faculty have been engaged in the areas of welfare reform, campaign finance reform, tax reform, crime, homeland security, economic development, health policy, school finance, school choice and Social

Security. They have published this work in the most highly regarded academic journals and they have delivered their thinking firsthand to those who grapple with these issues on a daily basis. If solutions are soon to be found for any of these complicated problems, La Follette faculty will play a role in finding them and in conveying those solutions to the public.

### Where Did the La Follette School Come From?

La Follette is a relatively new school, but it fulfills the promise of a very old and proud tradition. A century ago, huge transformations were occurring both in real world governance

and in academic social science. The University of Wisconsin, and especially its Department of Economics, was important both to the national academic developments taking place and, led by Robert La Follette and other reformers, to the application of rigorous thinking to the practical problems facing the nation and the state of Wisconsin.

Richard T. Ely, chair of the economics department, became the first president of the American Economic Association upon its founding in 1905. Yet only a few years earlier, this distinguished scholar had been summoned to a public hearing organized by the University of Wisconsin Board of Regents who were investigating his behavior following reports that he had participated in labor movement activities. The published findings of the hearing included the now revered statement,

*"Whatever may be the limitations which trammel inquiry elsewhere, we believe the great state University of Wisconsin should ever encourage that continual and fearless sifting and winnowing by which alone the truth can be found."*

At that time, new social science disciplines were organizing themselves at the national level, and new departments were being formed at Madison for these disciplines, some of which spun off from the economics department. Even amid this academic turmoil, the engagement of Wisconsin's highly regarded academic community in the public affairs of the state was unparalleled. The Wisconsin Labor Commission was formed, which became the forerunner to the national Bureau of Labor Statistics. The Public Service Commission and other regulatory bodies followed, all based on some of the best academic thinking of the time.

The result of this activity, when combined with important national antitrust and regulatory legislation, along with major changes in the structure of government, including the extension of the franchise and the creation of civil service reform, was a new governance structure that provided answers to the major problems raised by the huge economic transformation that had followed the nationalization of economic activity and the development of important new industries of large scale production. The governance structure that emerged was a wonder that worked right along with, not against, the market system, permitting large profits to be earned by those companies that made large contributions to American prosperity, but prohibiting profits earned by corruption, by monopolizing bottlenecks, by selling unhealthy products, or by exploiting workers. A century of unprecedented economic progress followed.

### **What Is the Future of La Follette? Of Academic Social Science? Of Our Commonwealth?**

There are similarities between the academic and real world problems of today and those of a century ago. The cards of wealth and power are being reshuffled by changes in technology and communication that affect both corporate governance and political governance. New issues, like biogenetics, are emerging that pose ethical problems we are not ready to engage.

While a new economy of enormous potential and fruitfulness is unfolding, choke holds are appearing that give unin-

tended power, influence, and wealth to groups that have expert knowledge or that certify those who do or who hold licenses obtained from government based on the century-old model of economic regulation. Corporate governance itself faces many of the problems today that were faced in the public sector a century ago.

Meanwhile, within academia, the old boundaries between the disciplines constrain collective thinking. Real world problems cut across the traditional academic boundaries. And now, abstract academic developments in one discipline have immediate power and usefulness in others. Each discipline, we can see, is using its own tools to work on the problems once viewed as the domain of the others. At one time, it was the economics department that studied the economy. Today all social sciences study the economy, and economists apply their methodology to the study of elections, clubs, altruism, and evolution. Mathematics has empowered scholars in the core social science disciplines to define and study important new academic problems.

Sometimes practical problems can fail to find a home in the new academia that is emerging. One response to this has been to create a new layer of applied social science schools and departments, units designed to confront real world problems more directly. Business schools emerged first, with Wisconsin's being spun off from the economics department at mid-century. Schools of public affairs emerged later, with La Follette becoming an institute in 1984, based largely on the public administration program that was spun off from the political science department but also including a group of policy analysts from the economics department. La Follette became a school in the 1990s. While most schools of public affairs are now organized like business schools as stand-alone entities within their universities, La Follette remains within the College of Letters and Science, and most of its faculty continue to have appointments that are shared with one of the core academic disciplines.

While La Follette continues the century-old tradition of strong face-to-face engagement of social scientists from the University of Wisconsin in the affairs of governance, it also is proud of the academic reputations of its scholars.

Finally, La Follette is a community of scholars who are bound together by their commitment to both academic excellence and to the engagement of academic ideas in the public arena. They are also bound by their common mission of training the next generation of public servants who will carry their ideas and expertise to the front lines of the policy battles.

### **An Engaged Academic Community**

New conceptualizations, solutions, and governance structures are needed to help re-enfranchise the average voter, shareholder, or taxpayer confronted by the new and emerging concentrations of expertise and power. An engaged academic community is the source from which these new ideas are likely to spring. We at La Follette will remain an engaged academic community, grappling with these problems.

*Donald A. Nichols*

# Connecting the Dots to Enhance Security

By Donald F. Kettl

*Donald Kettl is a professor of public affairs and political science at the University of Wisconsin–Madison. He has served on commissions and as a consultant to agencies at all levels of government. He is a nonresident senior fellow in governmental studies at the Brookings Institution and a fellow of the National Academy of Public Administration. This article was first published in the October 2002 edition of Governing Magazine. Reprinted with permission.*

By any measure, the creation of the new Department of Homeland Security is a historic event. Not since the establishment of the Department of Defense in 1947 has the federal government attempted to bring together so many different functions. In fact, the new reorganization is more sweeping than the creation of DOD was, with more agencies serving a broader array of purposes struggling to fit under the same roof.

President Bush and members of Congress raced to set up the new department because they feared the jumble of existing agencies had created opportunities for terrorists to slip through—and hampered the government’s ability to block future attacks. Bush launched his proposal on the very day FBI agent Coleen M. Rowley told a congressional committee that she had warned her superiors before September 11 of suspicious people seeking flight training but that her warnings had gone unheeded. Listening to stories like hers would make anyone worry about how to connect the dots of security information; among those most obsessed with dot connection has been the president himself. But while it’s unquestionably a good idea to launch a cabinet-level effort, President Bush’s plan leaves important dots unconnected: namely, the critical relationships between federal strategists and state and local first responders.

That awful September 11 morning revealed worrisome gaps in the federal-state-local system—from Mayor Rudolph Giuliani’s struggle to reach the White House by cell phone to the problems the nation’s capital had in deploying its emergency plan. In the weeks that followed, the same problem played out repeatedly around the country.

Officials in Wisconsin dealt with more than 400 anthrax scares, not one of which proved real. Determining that the scares were in fact false alarms stretched first responders and the state testing lab to the breaking point and revealed obvious weaknesses in state capacity.

Even worse were the gaps that emerged in local preparedness. Fire fighters and police officers swarmed to the scene in Madison, the state capital, when one company’s worried workers found a suspicious powder. It took 45 minutes for the employees to realize they should call the government’s communicable-disease specialist. When the specialist finally arrived on the scene, the fire fighters wouldn’t allow her to cross the crime-scene tape.

Neighboring communities discovered that their police officers couldn’t talk to each other in emergencies because their radio frequencies were incompatible. The New York Fire Department’s own investigation has re-

vealed that communication breakdowns were the most serious problem at the World Trade Center disaster—but in many parts of the country, communication systems are even more poorly connected.

The surveys of state and local preparedness, moreover, show big gaps in the degree of protection. The nation’s state and local governments vary widely in their capacity to prepare for and respond to terrorist attacks. But they are the ones who must build an effective security system that can operate almost instantly when it has to. The federal government cannot do this for them, no matter how much money or effort it puts into the problem.

The most important dots to be connected, in short, are the ones that exist between the new homeland security department and the homes of people all over America. The Bush plan still leaves most of them unconnected. It’s a top-down plan without any real strategy to work from the bottom up. If there was any bit of luck at all in the terrorist attacks of September 11, it is that the most serious attacks occurred in the city best equipped to respond. Had they happened anywhere else, the consequences might have proven far worse.

The new department will provoke fierce bureaucratic battles in Washington, and these battles will receive the bulk of the media coverage. But it will be urgent to put them behind us as soon as possible and focus on the basic problems—how to organize governments throughout the country to get the job done.

What would a realistic, carefully constructed federal plan to fight terrorism look like? To start with, it would unite federal, state, and local officials in a crash program to define the foundation of preparedness. The federal government would set the basic standards that all state and local governments should meet, just as it does for programs ranging from Medicaid to highway construction. The feds would structure federal grants as incentives to reach the goals, and assess state and local performance against them. The new agency would gauge best practices and help state and local officials teach each other new methods and strategies. They would cut months, if not years, off the learning curve.

Most of all, the federal government would focus on the central mission—security and preparedness—and would fashion a productive partnership with the people who work the front lines. If instead of connecting the dots between Washington and the front lines, the new agency becomes mired in turf conflict, we risk leaving ourselves even more vulnerable to the new risks we face. ■



La Follette  
**Policy Report**

THE ROBERT M. LA FOLLETTE  
SCHOOL OF PUBLIC AFFAIRS  
UNIVERSITY OF WISCONSIN-MADISON  
1225 OBSERVATORY DRIVE  
MADISON, WI 53706

RETURN SERVICE REQUESTED

Nonprofit Org.  
U.S. Postage  
PAID  
Madison, WI  
Permit No. 658