Center for Excellence in Family Studies
School of Human Ecology • UW-Madison

29th Wisconsin Family Impact Seminar

January 26, 2011

Evidence-Based Budgeting

Making Decisions to Move Wisconsin Forward

Executive Summary

In the wake of the worst recession since the Great Depression, Wisconsin policymakers face a substantial budget shortfall. A recovery is underway, but the Wisconsin Department of Revenue (2010) predicts it will take until mid 2013 for the economy to return to pre-recession levels. For states, next year "could be the worst year of this four- or five-year downturn period," according to Scott Pattison, Director of the National Association of State Budget Officers. What lessons can be learned from this recession to build more sustainable budgets in the future? This briefing report features three national experts discussing how evidence can be used to inform state budget decisions. Wisconsin's revenues and expenditures are compared with other Midwest states, and strategies are presented for identifying and investing in evidence-based, cost-effective programs that improve outcomes for individuals, children, and families.

Steve Aos

In the first chapter, Steve Aos, Director of the nonpartisan Washington State Institute for Public Policy, reviews procedures for making evidence-based and cost-effective budget decisions. At the request of the Washington State Legislature, the Washington State Institute for Public Policy developed procedures for using evidence to maximize return on taxpayer investment for prevention and intervention programs and policies. The return on taxpayer investment has been calculated for a number of policies and programs affecting child maltreatment, crime, education, employment, housing, mental health, public assistance, public health, and substance abuse outcomes. These results detail which programs yield the greatest benefit for the least cost. For interested states, software will soon be available to allow easy access to the Institute's findings and procedures. With this software, states can replicate these analyses based on their own demographics and program costs.

David Merriman

The second chapter is written by Professor David Merriman, Associate Director of the Institute of Government and Public Affairs at the University of Illinois at Chicago. This chapter presents an overview of state revenues and expenditures nationwide and in Illinois, Indiana, Iowa, Michigan, and Wisconsin, primarily between FY 1998 and FY 2008. Overall, tax revenue grew slowly or even declined; at the same time, expenditures grew faster than revenue across the board. When spending levels exceed revenue, states experience fiscal crisis. Several promising strategies for stabilizing budgets over the business cycle are discussed: accumulating surpluses or rainy day funds to balance out cyclical downturns, distinguishing between short-term and long-term revenues in the budget process, publishing multi-year budget forecasts, and considering family impacts of budget decisions, particularly on the state's most vulnerable children and families.

Seminar Presenters

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William Fox

The third chapter is written by Professor William Fox, Director of the Center for Business and Economic Research, at the University of Tennessee. The chapter reviews how the recent recession has left in its wake high unemployment rates and tax revenues that are slow to rebound. The biggest challenge facing state policymakers is designing revenue systems that will work beyond the current budget cycle. Revenues should match the spending that is required to maintain the level of services that a state chooses to deliver without frequent rate adjustments. States have four basic strategies for balancing state budgets: expenditure cuts, federal stimulus money, reliance on reserves, and policy-based revenue enhancements. This chapter outlines which policy options states are implementing to develop more sustainable revenue streams, and what economists say about their effectiveness. The chapter concludes with specific budget lessons of this recession.

The Wisconsin Family Impact Seminars are interested in the fiscal crisis that Wisconsin is facing because of the implications that it has for families and because of the implications families have for the state economy. Families are a key contributor to human capital, which is one driver of a nation's economic competitiveness.

Throughout this report, family impacts are emphasized: (1) what impact the recession has for families, (2) whether states have responded to family needs, and (3) in what ways some states have responded. First, during recessions, the state's most vulnerable families are at risk as family members lose jobs and often health care. Just when families face increasing need for state services such as unemployment insurance and Medicaid, states experience decreasing revenue for providing such services. Second, little evidence exists that state spending responds to this increase in family needs. Without such a response, the most vulnerable families may bear the biggest burden during fiscal crises.

Finally, in response to a recession, states often enact policies to enhance revenues in ways that may be regressive or harmful to those families with the fewest resources. Many states have countered this regressivity through policy levers such as providing tax relief to low-income families. As detailed in the Merriman chapter, states have enacted policies to increase the Earned Income Tax Credit, raise the minimum tax threshold, and enact or enhance child care, homestead, and energy tax credits. To determine how to best help families perform the important functions they provide for their members and society, the Aos chapter explains how cost-benefit studies can identify policies and programs that are most effective in achieving a particular outcome, while at the same time providing the greatest return on taxpayer investment. ■

Where research meets family policy

The Wisconsin Family Impact Seminars are a continuing series of policy forums that provide policymakers with objective, high-quality research on issues such as growing the state economy, cost-effective corrections programs, long-term care, prisoner reentry, health care quality and cost, and workforce development. The Seminars aim to increase the use of research in policy decisions and to encourage policymakers to view policies and programs through a family impact lens. Check out the Seminar website (www.familyimpactseminars.org) for audio of speakers at previous seminars (click on "State Seminars"), and for 150 briefing reports from 23 states written specifically for state policymakers (click on "Publications"). The briefing report described here, "Evidence-Based Budgeting: Making Decisions to Move Wisconsin Forward" accompanied the 29th Wisconsin Family Impact Seminar. The full report, edited by Karen Bogenschneider, Director, Olivia Little, Graduate Student, and Stephanie Eddy, Consultant can also be downloaded from our website. Hard copies are available to state legislators at no charge by contacting Seminar Coordinator, Jennifer Seubert, at (608) 263-2353 or jseubert@wisc.edu.