

Passing grade

Wisconsin has turned the corner economically, but much work remains to achieve prosperity

By Tom Hefty and John Torinus



Although there has been a grudging improvement in Wisconsin's economic performance since the Great Recession, due in part to a strategic focus on manufacturing, the state will not create 250,000 jobs by the end of 2014. Neither will Wisconsin be ranked as a top 10 state for business climate. Those goals, set out by Gov. Scott Walker in 2010, remain worthy. But they won't be achieved.

The 250,000 jobs number will be the central debating point between Walker and his Democratic challenger, Mary Burke, in the 2014 gubernatorial campaign — as it should be. Did Walker do enough for the economy? Did he make enough progress toward that jobs goal?

Does Burke have a better plan? Each is throwing out debatable job growth numbers to put the other in a bad light, but the state needs better; it needs to know their economic agendas going forward.

Even if some of the rust has been buffed off the Wisconsin economy, state leaders have hardly established a shiny new platform for prosperity. Where the state has made strategic investments, though, particularly in the legacy clusters for advanced manufacturing and agribusiness, we are getting prosperity payoffs.

The dashboard of metrics for the Wisconsin economy is maddeningly inscrutable. Any number of conclusions can be drawn when slicing and dicing the metrics over the last decade. In general, the numbers show modest recovery from the massive setback to our manufacturing base during the Great Recession of 2008 and 2009. But the progress has been very uneven.

Putting a score on our economic leaders' performance is difficult; they merit a passing grade at best. Some indicators are promising, while others have proved stubbornly resistant to improvement. To wit: The state's unemployment rate has dipped four points from double digits in 2009 to just over 6%, better

than the national average, a big plus. But average wages are still stuck at 34th in the nation, below Alabama's, a big minus. Thanks to heavy overtime, wages have shown an uptick recently.

The frustrating and debilitating brain drain of more than 10,000 college graduates per year — a major issue first identified in 2000 — persists. (See the sidebar on page 30.)

Wisconsin has shown steady improvement in many areas, including job growth, in 2013, according to the monthly Bureau of Labor Statistics reports. Wisconsin has improved in every national ranking of business climates. In some, the improvement has been

significant. In others, the gain has been slight. But all show advances.

Similarly, the Wisconsin credit rating has improved.

And the state budget has a

surplus — providing predictability for businesses considering expansion.

The best news comes from the state's cornerstone in manufacturing. In 2013, Wisconsin beat the national average in manufacturing growth, according to the bureau's December report. These are good-paying jobs spread across the state. Manufacturing has enjoyed bi-partisan support going back to Democratic Gov. Patrick Lucey and the passage of the manufacturing property tax exemption in 1977. Republicans recommitted to a manufacturing priority in 2011 by phasing out almost all of the corporate income tax for manufacturing and agribusiness.

Nonetheless, manufacturing intensity continues to slip, down from one in five jobs a decade ago to one in six today. Production is growing faster than employment due to productivity advances in automation, computerization, lean disciplines and outsourcing. Less than 2% of the population produces all the food the nation can eat and then some, and manufacturing could end there, too. Economic reinvention beyond advanced manufacturing is an

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obvious strategic imperative for Wisconsin.

Wisconsin is fortunate to have a savvy development plan available for strategic adjustment. It was hashed out over a decade of economic development conferences that brought together the state's best economic thinkers and culminated in the Be Bold plan — a blueprint for prosperity.

But whether the state's political leaders will fully commit to the Be Bold vision is not yet clear.

It's troublesome that Wisconsin's largest cities, Milwaukee and Madison, are weak economic performers.

Five years ago, in the July 2009 issue of *Wisconsin Interest*, we wrote that Wisconsin had fallen behind in the race to create jobs and raise family incomes. In 2008, Wisconsin ranked 47th among the states in five-year personal income growth. Our job growth was less than half that of neighboring Illinois, Iowa and Minnesota. And in March 2010 in these pages, we noted that Forbes had dropped Wisconsin to 48th in its 2010 business ranking. The Pew Center named Wisconsin one of the 10 worst states for fiscal stability.

Under Walker and the Republican-led legislature, we are off bottom in those categories and headed upward. But stubborn problems remain. Wisconsin's economy has been out of balance for more than a decade. It ranked 49th in the growth of jobs in financial activities in 2013 and 44th in the large trade, transportation and utilities sector. In the broad service sector, representing 80% of all Wisconsin jobs and almost 90% of nationwide jobs, only in information systems did Wisconsin exceed average, ranking 20th in 2013 growth.

Although the information systems growth is frequently attributed to one company, Epic Systems in Verona, the growth is statewide, from Logistics Health in LaCrosse to Fiserv in Brookfield to GE Healthcare Information Systems in the Milwaukee County

Research Park.

Aside from the growth in information systems, the bad news continues. Wisconsin's largest cities, Madison and Milwaukee, are weak performers. The national economic recovery has been called "metro-centric," with cities leading the growth. Not so in Wisconsin. In September 2013, the liberal Brookings Institution ranked Madison 84th out of 100 and Milwaukee 78th out of 100 in job growth since the end of the recession.

Milwaukee, in particular, has been singled out in the national media for its weak growth record and anemic prospects. This includes such sources as the Urban Land Institute, the U.S. Conference of Mayors and a Harvard University study on economic mobility and opportunity. In February, Milwaukee was cited in a new Brookings report for having one of the highest increases in income disparity. Another report found Milwaukee has one of the highest tax rates among major cities.

To put Milwaukee's weakness into a statewide context, had the Milwaukee area grown at the average for major metro areas, Wisconsin would

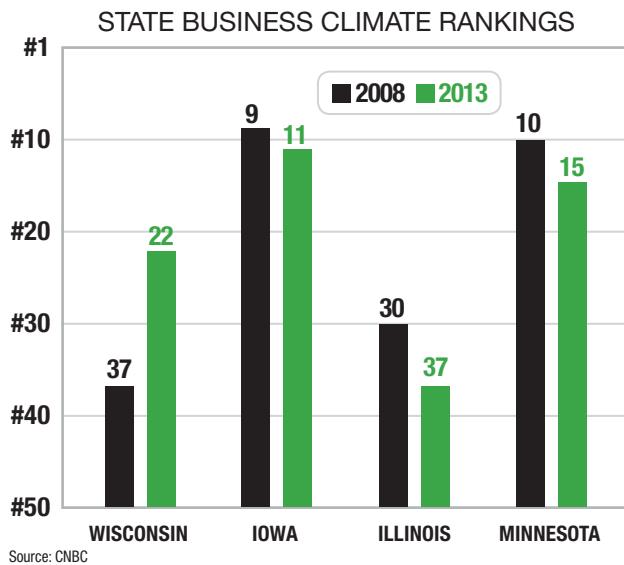
2013 MIDWESTERN JOB GROWTH RANKED AMONG THE 50 STATES

	Overall	IT	Finance	Mfg.	Services
Minnesota	15th	3rd	31st	17th	19th
Iowa	17th	43rd	34th	14th	20th
Wisconsin	29th	20th	49th	20th	26th
Illinois	35th	25th	29th	43rd	28th

Source: Arizona State University website USA Job Growth (using monthly US Bureau of Labor Statistics data)

have added 40,000 new jobs over the past four years. Other Midwest metro areas lead statewide growth. Milwaukee is Wisconsin's laggard. That math is simple. Fixing Milwaukee is not, as many well-intentioned regional leaders have learned as they have launched initiative after initiative. They have no choice but to continue to fight the good fight.

Madison's weak performance is surprising in light of its natural advantages — a truly world class research university and a regional hub of medical



centers. Overlooked in Madison's frequent celebration of itself has been the decline in the economic impact of the UW-Madison. The flagship campus ranked last among Big Ten schools in business-sponsored research and last among the top 10 research universities in businesses created from university research. It shows a declining rate of patent activity. In 2013, the Kauffman Foundation cited Madison for one of the largest drops in high-tech startup activity.

Meanwhile, the UW chose to insert itself into private collective bargaining activities in Wisconsin, threatening to boycott Palermo's Pizza and taking sides in a union organizing effort. Its political correctness sends a chilling message to businesses considering university relationships.

A continuing negative factor is Wisconsin's national reputation. In 2013, Wisconsin was ranked 38th in economic freedom by the conservative Mercatus Center. Wisconsin was ranked 43rd by the U.S. Tax Foundation. Another survey gathered one-word descriptions of each state. Wisconsin was not the "cheeseheads." It was "liberal." Minnesota was noted

as "cold." Illinois was "corrupt." Nebraska was "boring." All of the national rankings are statistical sausage making — grinding out numbers from various statistical sources from earlier years. So they change slowly, as do state reputations, but in the interim they do influence business location decisions.

Columnist George Will described it best: "Capital goes where it is welcomed and stays where it is well-treated." Harvard business strategist Michael Porter asserts that states must compete to offer the most productive environment for business, because only businesses can create jobs and wealth.

The challenge of repositioning the state's commercial, educational, governmental and human resources in the face of sweeping globalization and technological acceleration has been daunting. To that end, many of the state's best and brightest have engaged in two decades of statewide strategic planning exercises. They have attempted to hammer out a way forward for the state's economy. The return on that investment of time, energy and money has been hard to calculate.

We could use a Center on Wisconsin Economics to

Leading companies at the top of supply chains provide a marketplace for many smaller firms, so their expansions are pivotal.

sort it out. Our institutes and think tanks don't do that now in a comprehensive, accountable way. They do fragments of analysis and policy reviews at best. Their work is often esoteric and slanted. Our reporting on jobs is a mess.

In truth, the state never did comprehensive economic planning of any sort until then-UW System President Katharine Lyall led a series of four economic summits between 2000 and 2003. Hundreds of the best minds in Wisconsin were pulled into the process.

More big ideas for growing Wisconsin

Other noteworthy organizing concepts — big ideas — have emerged since the Be Bold plan of 2010.

For example, UW-Milwaukee Chancellor Mike Lovell, one of a get-it-done cadre of economic leaders in Milwaukee, follows a technology roadmap to determine where the action will be in the next economy. That led him to champion energy and water technologies.

He believes strongly in “co-location” of key resources from the worlds of commerce and academe. His new Innovation Campus puts his graduate engineering program physically next to ABB Inc.’s research and development center for power and automation technologies and the Medical College of Wisconsin next to GE Healthcare. More players, such as startups and a technical college are moving in. Johnson Controls Inc. has moved a lab right into his other engineering building. Similarly, UWM’s College of Freshwater Science is next door to the new Global Water Center.

Here are additional proposals that leverage the Be Bold concepts discussed in the main story:

- Acknowledging that cluster strategies are being deployed at the regional level, the state could add financial support to Wisconsin’s seven regional economic organizations. They offer decentralized leadership and boots on the ground to execute development initiatives.
- As made clear in a follow-up Be Bold 2 analysis and other studies, the critical work force needs in the key clusters cannot be filled by the education community alone. Businesses have to step up. They need to boost their depleted training budgets. They need to align with the academic programs through tuition reimbursement, internal training, internships and youth and adult apprenticeships. (See the story on page 18 that details the Ariens Co.’s partnership with Brillion High School.) All joint work-school educational programs work famously to develop the

Then in 2010, under the auspices of Competitive Wisconsin Inc., 30 of the state’s largest stakeholders contributed to Be Bold — The Wisconsin Prosperity Strategy. They all signed on to its conclusions.

Some strategic insights emerged that have provided a framework for public policy ever since:

- The Wisconsin economy operates in clusters, also called driver-export industries, such as papermaking in the Fox River Valley, medical devices in southeastern Wisconsin, and biotechnology in

If the strategy of poaching businesses from other states hasn’t worked for four decades, isn’t it time to drop it?

Madison. The state’s seven regional economic development groups are deploying the cluster-organizing concept with varying degrees of effectiveness. Be Bold called for policy councils for each cluster to bring government, education and market-leading companies into concert. That hasn’t happened at the state level but has been acted upon at the regional level.

The Water Council in the Milwaukee 7 region is an example of how to drive an emerging cluster forward. M7 leaders are also focusing on “legacy clusters” in food and beverage; power, automation and controls; headquarters and business services; and finance and insurance. The last two clusters have lacked the kind of strategic attention that has benefited advanced manufacturing.

- Even without targeting, the state’s business services and information systems sectors score highest for job and wage growth. With strategic support, the state’s food manufacturers increased their exports to \$1.7 billion in 2012, up 156% since 2005.

Lyall’s intellectual leadership made it perfectly clear that the UW System had to deliver more than just its fabulous graduates, the supply side of the

manpower equation. It also had to operate on the demand side, the job creation dimension that comes through high-growth startups that are invariably based on technological breakthroughs.

UW graduates and the rest of the citizenry deserve more than degrees and certificates; they deserve good jobs and careers. There can be no sustained prosperity without full university engagement in the state economy. This is a necessary addition to the time-honored Wisconsin Idea that says the borders of the university are the borders of the state.

That idea is more than a geographic concept. For example, education leaders in the eight-county region New North from UW-Oshkosh, UW-Green Bay and the technical colleges teamed up to provide engineering technologists for advanced manufacturing companies. Businesses are pitching



in with internships and tuition reimbursement. Another example: Researchers at UW-Stevens Point are working with the paper and forest industries to find technology breakthroughs that will put closed paper mills back on line.

- Recruiting from other states has been tried for 40 years, and it hasn't worked in Wisconsin. It's an expensive distraction that hasn't produced more than a handful of successes. One noble public-private initiative, Forward Wisconsin, failed to move the state forward and disappeared. There is some benefit from states competing globally for companies and jobs, because it forces them to improve their

potentials of the people already here. Given our demographic outlook, we are going to need every available worker to operate at top speed.

- As is happening in the New North region, the UW System should be reorganized on a regional basis so it is locked into a prosperity focus for all state citizens. A Madison-centric structure hasn't worked well enough beyond Dane County to pull Wisconsin to a top 10 state for job growth and pay. The state's technical colleges could be pulled into the same hubs for coordination of offerings for work force needs. As a side benefit, UW administrative costs could be reduced by decentralization to the regions and consolidation there.
- State government could also be decentralized to help the intractable Milwaukee poverty syndrome. Departments that interact with the state's business community, such as the Department of Workforce Development and the Wisconsin Economic Development Corporation, should be moved to the state's business center. Other states, like Minnesota, benefit from the nexus of business and state government.
- In every corner of the state, entrepreneurs must be our heroes. We need to support and capitalize their efforts to reinvent the economy in every institution. For example, four foundations in Milwaukee have made investments in a startup fund. Hundreds more could match that bold strategy with small slices of their portfolios.
- A firm that former Gov. Jim Doyle consulted, Angelou Economics, made the point that a competitive overall tax structure, not targeted tax incentives, is the most effective for job growth. Wisconsin has cut taxes three times since 2011.

— T.H. and J.T.

Brain drain and other demographic challenges

There is one looming challenge in the business environment that hasn't received enough attention: our demographic makeup. The state is aging. Almost all of its projected population growth over the next 20 years is in the over-65 category. In addition, the Wisconsin brain drain continues. Our work force is below average in the percentage of college graduates, ranking 30th, despite being 14th in state and local per capita spending on higher education.

That demographic challenge is frequently described as a work force skills gap, implying that more spending on education alone will fix it. Education of course helps, but the reality is that Wisconsin has not attracted its share of the increasingly diverse U.S. population. Wisconsin ranked 41st in 2012 for interstate migration.

Particularly painful was a recent UW report at the Wisconsin Economic Development Association conference that showed a continuing loss of 10,000 college graduates each year. Young grads may move for an adventure right out of college for a year or two, but then they look for hot job markets as they decide where to settle. Compared to recent performance, if Wisconsin could just break even, it would enjoy a brain gain of 100,000 educated workers over a decade.

There is a shred of tentative positive demographic news. Although Wisconsin continued to lose population to other states, the U.S. Census Bureau reported that Wisconsin had net in-migration from Minnesota, Iowa and Illinois in 2013, a reversal of historic trends.

The demographic challenge is easy to identify but hard to correct. It is a function of job creation, because people move for careers. Wisconsin's economy already taps its adult population deeply with a work force participation rate at a relatively high 68%, eighth highest. In contrast to declining U.S. participation rates in recent years, a threat to U.S. growth, the Wisconsin rate rose from 2012 to 2013. That means, though, that there will be little hope of pulling even more people into the work force.

That said, the population-jobs equation is dynamic. With more job opportunities, there is more in-migration and less out-migration. Witness the influx in North Dakota for employment in its booming energy sector. People aren't moving there for the climate.

Adding up the numbers, leaders of the state — public and private — have a lot of clear thinking and innovative work to do. And the leaders need to lead.
— T.H. and J.T.

business environments as a differentiator. To that end, an increasing number of states — including Wisconsin neighbors Indiana, Iowa and Michigan — have adopted right-to-work laws. In general, though, cross-border poaching is a zero-sum game. As for Wisconsin, if a strategy doesn't work for four decades, isn't it time to drop it?

- If poaching is a dead end, expansions inside our clusters are a sure thing. Market-leading companies at the top of supply chains provide a marketplace for many smaller firms, so their expansions are pivotal. However, subsidies for expansion should be paid only after the added jobs are actually created and audited.

Mercury Marine received a \$70 million state

subsidy in 2009 and a \$50 million county loan to consolidate in Fond du Lac, and it looks to have been good decision. Employment has doubled to about 3,000 since then, and another expansion is under way that is expected to add 300 more. It appears that the local loan will be paid off, and, at roughly \$50,000 per new job in subsidies, the state looks to get a 10-year payoff in terms of higher payroll and sales taxes. Not all subsidies work out so well.

Some recommendations from the summits and Be Bold have been adopted; others ignored. A call in both exercises for a more aggressive, professional harvest of federal dollars has gone nowhere. The

office to seek those funds has gone unmanned, and Wisconsin continues to rank near the bottom for federal tax dollars returned to the state. We are a top donor state.

It has taken decades for UW-Madison to move away from the 1970s ban on classified research. A new center for top-secret cyber-security research has just opened under the auspices of the Wisconsin Technology Council. And the Republicans in Madison have passed a new law that enables classified UW research.

A vision laid out in 2003 of a statewide network of angel investing groups to give entrepreneurs a boost has been put into place, and startup deals are accelerating. Some of the state's 50-plus angel groups are small, but the network is getting wider and deeper in funding. Several groups have gotten together to syndicate deals. Two groups, for example, put \$1 million into Simply Incredible Foods, an innovative cranberry products company in Port Edwards.

Virtually all of the state's great employers started small. The Be Bold strategy called for a major commitment to a startup economy, including a \$1 billion Wisconsin Prosperity Fund that would match private investments over five to 10 years. A related goal was the creation of 500 high-growth companies by 2020. The Republicans created a \$30 million venture fund last year, a less-than-bold start, and the State of Wisconsin Investment Board and the Wisconsin Alumni Research Foundation also took a small step with another \$30 million for information technology startups statewide. The state deepened its commitment to 25% credits for early-stage investors.

The Walker administration has taken seriously the recommendation for sensible regulations. Also adopted was a recommendation to take economic development out of the hands of the old Department of Commerce and assign it to a public-private organization. The new Wisconsin Economic Development Corp. got off to a rocky start but is proving to be a more nimble, responsive agent for supporting expansions and encouraging cluster formation in the regions. The new unit achieved a fourth-best ranking for transparency in

its development programs.

Be Bold is a young document, with many unmet proposals. It needs to be the centerpiece of the gubernatorial debate over the next six months.

Let's end by celebrating the good news: Wisconsin leaders have spent three decades since Kimberly-Clark move its headquarters to Texas trying to figure out what works and what doesn't work for economic development. Regional leaders have identified the strengths and weaknesses of their counties. They have strategies that align with the Be Bold blueprint. Instead of trying to steer the economy from Madison, which hasn't worked beyond a passing grade, empower the regional leaders to drive the good ship Wisconsin.

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Another economic summit is in the works for later this year, after the din of the gubernatorial election fades. It will no doubt ratify that the state has made some progress since the Great Recession and lags on many metrics, most importantly per capita income. It will no doubt hit many of the same themes and organizing concepts that were elicited from the best economic thinkers in the state.

However, one over-arching theme that must emerge is leadership. Strategy usually is more about execution than conceptualization. It is time for our leaders to be decisive at both the state and regional levels. Wisconsin has held its advantage in manufacturing jobs. Its leaders have proved that a focused strategy can make Wisconsin a national front-runner in one key sector.

Why not others? ■

Tom Hefty is the retired CEO of Blue Cross-Blue Shield of Wisconsin. He co-chaired Gov. Jim Doyle's Economic Growth Council and served on a similar council for Gov. Tommy Thompson. John Torinus, a former newspaper editor, is chairman of Serigraph Inc. in West Bend and a general partner in the Wisconsin Super Angel Fund.