

## APPENDIX B-32: WISCONSIN



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<b><u>Business Poll Ranking</u></b>	
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### **Overview**

Wisconsin has relied heavily on agriculture, specifically the dairy industry, and the production of goods such as mined goods and beer for its success. Unfortunately, two of these industries have been suffering in recent years. In addition, Wisconsin is not very favorable to new business and their tax climate is not very favorable. *Forbes* compiled a ranking list of states with favorable business practices rated on a scale of 1-50, (with a ranking of one being the best). *Forbes* ranked Wisconsin as 44<sup>th</sup> on its list (a decline of five points from 2006). The following detailed list identifies Wisconsin's ranking in all eight categories.

<b>Wisconsin's <i>Forbes</i> Rankings</b>	
Overall Rank	44
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### **Public Policy**

The State Competitiveness Report (SCR) from 2007,<sup>2</sup> a study by the Beacon Hill Institute ranks a state's ability to produce high income, and generally a better quality of life for its citizens. The rankings compare all the states and rank them 1-50 (with a rating of one being the best). In this study Wisconsin received a mediocre rank of 22<sup>nd</sup> overall.

<sup>1</sup> Kurt Badenhausen. "Special Report: The Best States for Business." *Forbes Magazine*. July, 2007. [http://www.forbes.com/business/2007/07/10/washington-virginia-utah-bizcz\\_kb\\_0711bizstates.html](http://www.forbes.com/business/2007/07/10/washington-virginia-utah-bizcz_kb_0711bizstates.html)

<sup>2</sup> David Tureck, Jonathan Haughton, Frank Conte, and Christopher Doyon. *State Competitiveness Report 2007*. Boston: Beacon Hill Institute for Public Policy Research at Suffolk University, 2007. 22. <http://www.beaconhill.org/Compete07/Compete2007State.pdf>.

Within this particular report, Wisconsin is not ranked well in terms of government fiscal policy. Overall, the category ranked Wisconsin 39th of the 50 states. This ranking included the subcategories of budget deficit as percent of gross state product (GSP), for which the state was ranked 49<sup>th</sup>, state and local taxes per capita, income tax per capita (at 44<sup>th</sup>) and bond rating: composite (also at 44<sup>th</sup>).<sup>3</sup> Defenders of Wisconsin's spending habits cite that it is on par with the other Great Lakes states. However, this argument is weak since those states spent well above the national average as well.

Democrats have recently had trouble passing a healthcare reform bill, which Republicans thought too expensive. The bill called for universal health care in the state, which would put the burden heavily on personal and corporate income taxes.

There have also been issues with settlements for state workers. A report showed that Wisconsin was paying millions in tax dollars to settle cases brought by state workers. Much of the state's money was going not only to the claimant, but to the prosecuting lawyers. While the state has a responsibility to hold accountable wrongful or unethical acts committed within its agencies, citizens are frustrated that their tax dollars are not benefiting the public as much as they should.

### **Regulatory Affairs**

*Forbes* ranked Wisconsin quite unfavorably in this category with a rating of 44<sup>th</sup>, despite the "Jobs Creation Act of 2003" having been signed into law by Governor Doyle only a few years ago. The purpose of this act is to create business and job growth through a tweaking of the air and water permit system. Meant to limit the power of the Wisconsin Department of Natural Resources, it would allow businesses to acquire these permits more easily and quickly. It has been lauded by Wisconsin officials as a very comprehensive and successful act. However, Wisconsin and ten other states have been penalized for not conforming to federal natural resource depletion standards. This is in part due to the freer use of resources under the Jobs Creation Act.

### **Tax Policy**

The Small Business Survival (SBS) Index 2007 ranked states on a scale of 1-50 (with a ranking of one being the best). Wisconsin was ranked the 33<sup>rd</sup> friendliest policy environment for entrepreneurship, a drop from 27<sup>th</sup> the previous year.<sup>4</sup> This is not far from average, but there are more specific indicators of business friendliness where they did not rank as well. The state is ranked 35<sup>th</sup> in both top personal income tax and top corporate income tax according to this index. Furthermore, Wisconsin is ranked 43<sup>rd</sup> in state and local property tax<sup>5</sup> and 45<sup>th</sup> in gas tax.<sup>6</sup> This means Wisconsin citizens are suffering at home, in the office, and on the roads.

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<sup>4</sup> Raymond J. Keating Small Business Survival Index 2007: Ranking the Policy Environment for Entrepreneurship Across the Nation 12<sup>th</sup> Annual Edition. Small Business & Entrepreneurial Council, Washington, DC, November, 2007. 2.  
[http://sbecouncil.org/Media/pdf/SBSI\\_2007.pdf?CFID=514256&CFTOKEN=91743709](http://sbecouncil.org/Media/pdf/SBSI_2007.pdf?CFID=514256&CFTOKEN=91743709)

<sup>5</sup> Keating, 32

<sup>6</sup> Keating, 40

Wisconsin, in addition to a very high gas tax, also has the second highest diesel tax rate in the nation, at 32.9 cents per gallon.<sup>7</sup> This is an important indicator since heavy trucks which transport goods and inventory run on diesel. When transportation costs are high, business suffers. This is especially true for a state such as Wisconsin, where most revenue is earned by shipping goods such as dairy and beer out of the state.

The 2007 State Business Tax Climate (SBTC) Index ranked Wisconsin 38<sup>th</sup> for a favorable tax climate.<sup>8</sup> Not only is this well below average, it is a point worse than the index published a year before. Individual income tax overall is worse here than the top individual income rating in the SBS Index, at 42<sup>nd</sup>.<sup>9</sup> Also, the corporate tax index is ranked at 30<sup>th</sup> here.

The only area Wisconsin does not score poorly in is beer excise tax rates, where it ranks 3<sup>rd</sup> best in the country at 6 cents per gallon.<sup>10</sup> However, this tax is not significant enough to be a good business indicator; moreover, even with this low tax rate the Wisconsin beer industry is still suffering. Therefore, the low beer tax has clearly not helped Wisconsin in recent years in terms of business generation.

One reason Wisconsin's tax policy is viewed unfavorably is due to its use of the Alternative Minimum Tax (AMT). This tax is in place to ensure that all taxpayers pay some minimum level of taxes every year. However, this is not a good practice according to the SBTC index. The AMT creates "a parallel tax system," and "states that have mimicked the federal AMT put themselves at a competitive disadvantage through needless tax complexity. It should be noted that according to the SBTC index, there are twelve states that currently use an AMT. All of these states were rated poorly in this index.

## **Innovation**

Innovation is an area where Wisconsin is currently struggling. The state is ranked poorly in a number of innovation indicators, according to the State New Economy (NE) Index where it is ranked at 30<sup>th</sup> overall. While it ranks near average at 28<sup>th</sup> for IT jobs, the state is underperforming in job churning with a rating of 47<sup>th</sup>, broadband telecommunications at 38<sup>th</sup>, number of patents 35<sup>th</sup> and economic dynamism one point above at 36<sup>th</sup>.<sup>11</sup> The category of job churning refers to the "number of new star-ups and business failures, combined, as a share of the total firms in each state."<sup>12</sup> While the business failure factor of this rating sounds negative, it actually helps show a promising business environment. Just as new start-ups signify innovation, growth and an evolving marketplace, so too do failures. An older company that can no longer adapt to emerging business practice or technology in the workplace is a sign that there is fast-paced change occurring.

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<sup>7</sup> Keating, 40.

<sup>8</sup> Chris Atkins and Curtis S. Dubay. Background Paper: 2008 State Business Tax Climate Index. October, 2007. Number 52. The Tax Foundation. 10. <http://www.taxfoundation.org/files/bp57.pdf>

<sup>9</sup> Keating, 28.

<sup>10</sup> Atkins and Dubay, 28.

<sup>11</sup> Robert D. Atkinson and Daniel K. Correa. The 2007 State New Economy Index. Ewing Marion

Kauffman Foundation Kansas, 2007. 14. [http://www.kauffman.org/pdf/2007\\_State\\_Index.pdf](http://www.kauffman.org/pdf/2007_State_Index.pdf)

<sup>12</sup> Atkinson and Correa, 33.

Therefore, while this is bad for the specific businesses that are failing, it is a positive indicator when combined with the number of new and different firms.

Total net farm income dropped by 40% in 2006 alone, the worst fall since 2002 for the state.<sup>13</sup> This is due in part to the energy crisis in the US. Escalating oil prices have been a contributing factor of increased frugality across industries, including the dairy industry. Another possible reason for rising dairy product prices is the new ethanol/alternative fuel industry. Some farmers view this as a lucrative business venture; thus, as they begin to concentrate more on bio-fuel crops, the supply of dairy products drops.

Some important possibilities for the lack of innovation deal with a few of Wisconsin's largest industries. First, the dairy market in Wisconsin has been suffering in recent years, due mostly to competition from California. A report recently stated that California, as early as next year, could become the nation's leading cheese producer. The response in Wisconsin is that, "Wisconsin cheese lovers say quality is more important than quantity."<sup>14</sup> However, quality does not necessarily create more jobs. As is the case with countless other industries, efficiency of production, good marketing, and distribution are all factors of improving business, not just the perceived quality of a product. While quality is an important factor, it cannot solely sustain a business for a non-luxury item such as Swiss or Cheddar cheese. Even if Wisconsin retained its title as the largest cheese producer, California's chunk of the market would still significantly harm Wisconsin's portion of the industry. While a state like California can sustain itself in the production of wine, silicon, entertainment, etc., Wisconsin does not have much more than cheese and beer to maintain its economy.

The beer industry in Wisconsin has been long suffering as well. Miller Brewing Co., headquartered in Milwaukee, WI, has for years been behind Anheuser-Busch Co. and its number-one-in-America beer, Budweiser. Anheuser-Busch also owns Bud Light, Michelob, Busch and various other brands. Altogether, the company holds 50% of the market share for the US, along with a competitively growing market in Europe.<sup>15</sup> Miller, although second in the US market, has to share the remaining 50% with Molson Coors Brewing Co. and hundreds of other breweries and beer companies. Anheuser-Busch has continually captured the US market with superior advertising and lower prices. As both companies produce beer that is relatively inexpensive, quality is not much of a factor in gaining market share.

Other industries such as tourism have been growing in Wisconsin, but this is on par with most states in the US; thus, not much of a relative advantage is gained.

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<sup>13</sup> UW-Madison Department of Agricultural and Applied Economics. "Falling milk prices cause tough 2006 for Wisconsin farmers, report says". University of Wisconsin-Madison News. February, 2007. Board of Regents of the University of Wisconsin System. 19 Nov. 2007. <http://www.news.wisc.edu/13421>

<sup>14</sup> Emily Fredrix. "What Will Become of the Cheeseheads When Wisconsin Loses Crown?" Business Section. 11 December, 2006. The Associated Press. Lexis-Nexis Universe. Online. 19 Nov. 2007.

<sup>15</sup> "Anheuser reaches 50% market share - Anheuser-Busch - Brief Article". Modern Brewery Age. 17 Nov. 2003. FindArticles.com. 20 Nov. 2007. [http://findarticles.com/p/articles/mi\\_m3469/is\\_46\\_54/ai\\_111697254](http://findarticles.com/p/articles/mi_m3469/is_46_54/ai_111697254)

Since Wisconsin relies so heavily on these existing industries, the state has not ventured much into any new or emerging businesses. Thus, the NE index ranked the state 36<sup>th</sup> in economic dynamism.<sup>16</sup> In addition to job churning at 47<sup>th</sup>, this category included “gazelle jobs.” These are jobs that are in “gazelle” companies, so named because they are growing by leaps and bounds. Specifically, a gazelle company is one with annual sales revenue that has grown by at least 20% for four straight years. Gazelle jobs are the number of jobs in such firms as a share of total employment.<sup>17</sup> Wisconsin received a ranking of 23<sup>rd</sup> in this category,<sup>18</sup> which is somewhat peculiar given the other poor standings of the state.

Economic dynamism also takes into account a ranking of fastest growing firms, which counts “The number of Deloitte Technology Fast 500 and Inc. 500 firms as a share of total firms”. The NE index describes this further: “Every firm to make the 2006 Fast 500 list had experienced revenue growth of at least 200% over a four year span. For the 2006 Inc. 500, it was 300% in three years.”<sup>19</sup> This is similar to the gazelle job ranking in that it shows what portion of the state is experiencing strong growth. Wisconsin was ranked 37<sup>th</sup> in fastest growing firms. The top five states in this sub-category all possess strong technological sectors. Perhaps if Wisconsin were to improve its technological structure it would experience stronger business growth.

Through a series of standards, the NE index also created a state-by-state ranking of innovation capacity. Wisconsin fared better in this category, earning a rank of 28<sup>th</sup>.<sup>20</sup> The number of high-tech jobs as a share of total employment was one of the sub-categories, for which Wisconsin was ranked 33<sup>rd</sup> out of 50 states.<sup>21</sup> This is a below average ranking, but it is important to keep in mind that Wisconsin may still have a large high-tech workforce. Since Wisconsin has such a large agricultural sector, the relative size of the high-tech workforce is somewhat diminished. Other states that fare well in this area possibly do not have strong sectors other than high-tech jobs, or are too small geographically or do not possess the natural resources for large agricultural or mining industries; therefore, the high-tech job sector as share of the entire workforce in such states is much higher.

A similar rating of innovation capacity to high-tech jobs is the sub-category counting scientists and engineers as percent of the workforce.<sup>22</sup> Wisconsin earned a ranking of 33<sup>rd</sup> here as well. Again, due to the size of the agricultural sector in the state, this ranking does not necessarily indicate that Wisconsin has very few scientists and engineers.

“Patents” is another sub-category of innovation capacity. This counts the “number of patents issued to companies or individuals per 1,000 workers”.<sup>23</sup> Wisconsin was ranked 35<sup>th</sup> in this category. While not part of the innovation capacity category, there was also a

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<sup>16</sup> Atkinson and Correa, 31.

<sup>17</sup> Atkinson, 32.

<sup>18</sup> Atkinson, 16.

<sup>19</sup> Atkinson and Correa, 34.

<sup>20</sup> Atkinson and Correa, 45.

<sup>21</sup> Atkinson, 17.

<sup>22</sup> Atkinson and Correa, 47.

<sup>23</sup> Atkinson and Correa, 48.

ranking of inventor patents in the SBS index. This ranked the number of independent inventor patents per 1,000 people in each state.<sup>24</sup> Wisconsin fared more favorably here, earning a rank of 23<sup>rd</sup> out of the 50 states.<sup>25</sup>

## **Workforce**

Wisconsin receives a relatively high ranking when it comes to its workforce. The SCR ranks the quality of its workforce in its “Human Resources” category. In this category, Wisconsin ranks 12<sup>th</sup> in the country.<sup>26</sup> A significant force behind the state’s strong workforce ranking is Wisconsin’s strong showing in the number of adults in the workforce with a ranking of 7<sup>th</sup> and for workers with a high school degree at 14<sup>th</sup>.

However, despite the good news, Wisconsin’s workforce needs significant improvement for the state to become a viable business environment the SCR ranked the state 37<sup>th</sup> in unemployment rate.<sup>27</sup> In the innovation section, many examples from the NE report showed how Wisconsin’s workforce is not technologically or innovatively savvy. To compete in the modern economy, both elements are crucial.

The most damaging blow that has long been the case in Wisconsin, however, is its unionization rates. The percentage of employees represented by unions is ranked 39<sup>th</sup> in the US, according to the SCR.<sup>28</sup> The Bureau of Labor Statistics reported that the state’s percentage of those employed represented by unions was 16.1% in 2006.<sup>29</sup> This puts Wisconsin 41<sup>st</sup> in unionization rates. The states with worse rates included neighbors Illinois and Michigan, so Wisconsin holds a minimal relative advantage in this regard. Unionization becomes especially harmful to business when one considers the fledgling industries of beer and dairy, which may have to undertake wage cuts or layoffs to restructure.

As of July 2007, Wisconsin’s unemployment rate stood at 4.8%, reportedly a point below the national average for the month of July 2007, at 4.9%.<sup>30</sup>

## **Education**

The US Chamber of Commerce and its affiliate the Institute for a Competitive Workforce recently published a report titled *Leaders and Laggards: a State-by-State Report Card on Educational Effectiveness*.<sup>31</sup> This report gave a series of “grades” to each state to

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<sup>24</sup> Atkinson, 37.

<sup>25</sup> Atkinson, 17.

<sup>26</sup> Tureck, et al, 64.

<sup>27</sup> Tureck, et al.

<sup>28</sup> Tureck, et al.

<sup>29</sup> US Bureau of Labor Statistics. Union affiliation of employed wage and salary workers by state (Numbers in thousands). <http://www.bls.gov/ro1/neum.htm>

<sup>30</sup> “July Unemployment Rates Announced.” Department of Workforce Development 16 Aug. 2007. 26 Nov. 2007.

[http://www.dwd.state.wi.us/dwd/newsreleases/2007/unemployment/0707\\_state\\_lmi.pdf](http://www.dwd.state.wi.us/dwd/newsreleases/2007/unemployment/0707_state_lmi.pdf)

<sup>31</sup> The Institute for a Competitive Workforce. Leaders and Laggards: A State By State Report Card on Educational Effectiveness. US Chamber of Commerce, 2007

<http://www.uschamber.com/icw/reportcard/default>

display what the educational atmosphere is like. The overall rating Wisconsin received in this report was average. The ranking was broken down into nine categories, beginning with academic achievement, for which the state earned a “B.” This was due to above average performance on the National Assessment of Educational Progress (NAEP) math tests for eighth graders in the state, who scored 8% above the national average on these tests. Wisconsin was average in the next category with a grade of “C”, which rated the academic achievement of low-income and minority students. Only 4% of the state’s African American fourth graders scored at or above the proficient level on the NAEP math test, compared to the national average of 13% in this demographic.

Return on investment was the next category explained in this report. Wisconsin earned a “C” for this category as well, due to average student achievement relative to spending on education. Truth in advertising was also rated as a “C” for the state. This is because the proficiency levels of students in the state administered math exams differ from those in the NAEP exams for 2005. This difference can sometimes signify that state standardized tests do not accurately measure the level of students’ proficiency. Wisconsin’s worst grade of a “D” was earned in rigor of standards. This is because the state’s science programs are ranked very low compared to the national average, and because the “state has yet to align its high school graduation requirements with college and workplace expectations or to enact a rigorous graduation exit exam”. However, the state earned a “B” in post-secondary and workforce readiness, because the percentage of students who receive a diploma in four years from ninth grade is eleven points higher than the national average of 70%.

Wisconsin’s rating with regard to a 21<sup>st</sup> century teaching force is average at a “C”. This is because the state requires basic tests for teachers and subject tests for high school teachers, but has not created “alternative routes into the profession”. The “alternative” negative aspect of this category could use further explanation, but the report provides none. Wisconsin earned a “C” in flexibility in management and policy, which ranks how much freedom and flexibility each state allows its principles. This average grade might be inaccurate, however, because 94% of principles stated that they had some control over selecting teachers and staff. The only negative aspect of this category for the state is that it has not yet established a virtual school; however, the report does not explain the significance of this form of education. Therefore, this rating may not be as important as some others. Finally, Wisconsin scored above average with a “B” in the area of data quality. This is because the state collects and reports high-quality education data. Particularly, Wisconsin collects student-level college readiness test scores, which most states do not.<sup>32</sup>

The average rating awarded to Wisconsin by this report which was in the “C” range is somewhat confusing, as was described in a few of the areas mentioned above. Therefore, it cannot be trusted to perceive Wisconsin’s primary education system as merely average. The high quality of college education should be an indicator that the pool of students going into college is at least minimally of above-average quality.

The State Competitiveness Report 2006 (SCR) ranked Wisconsin favorably in a number of educational categories. The state is ranked 11<sup>th</sup> in percent of population over 25 that

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<sup>32</sup> Institute for a Competitive Workforce, 60.

graduated from high school, 14<sup>th</sup> in percentage of fourth-grade students testing at or above proficient math levels, and 19<sup>th</sup> in percent of population enrolled in degree-granting institutions.<sup>33</sup> This last ranking reflects the general consensus that Wisconsin has a strong secondary education system. However, this may be hindered in the future due to legislative concerns.

Currently, a primary issue with education in Wisconsin is over university funding. Neighboring state Minnesota is threatening to end a reciprocity agreement between the two states. This agreement allows students crossing state borders to pay the same amount they would for in state education. However, since University of Minnesota's tuition has increased significantly, Wisconsin students attending that university pay much less. Minnesota is threatening to cut the agreement unless Wisconsin assumes more of the burden.<sup>34</sup> If this agreement is broken, it will mean a significant price increase in state tuition for Wisconsin students. This could hurt the educated workforce as well as research and design for the state.

It should also be noted that a recent study by the Washington, D.C.-based Thomas B. Fordham Institute criticized Wisconsin for using some of the lowest standards for reading and math test scores in the nation.<sup>35</sup> That means that high test scores in the state are not accurate because they are potentially easier than in other states. This appears similar to the category "truth in advertising" in the report discussed below; however, as it uses different guidelines for test difficulty ratings, it cannot be concluded that the two support each other. This in part explains how the findings were so negative in the Fordham Institute's report, and merely average in the following Milken report.

### **Cost of Market Entry**

The Milken Institute releases an annual study in which it ranks the states with the highest cost of doing business on a scale of 1-50 (with a rating of 50 being the best for business).<sup>36</sup> In this study, Wisconsin was given an average ranking with the 23rd highest cost of doing business.<sup>37</sup>

Due to the high taxation rates and large union influence, Wisconsin is a difficult place to begin business. The taxes which most affect market entry are corporate income tax rate, which was already listed as below average at a ranking of 35<sup>th</sup><sup>38</sup>, and property tax, which is also ranked poorly at 43<sup>rd</sup> in the country.<sup>39</sup> Utility prices are somewhat worse than average as evidenced by their ranking of 30th.<sup>40</sup> Research and development and other various such costs would also prove intimidating to those seeking to start a new

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<sup>33</sup> Atkinson and Correa, 68.

<sup>34</sup> "Imbalance in College Costs Threatens Minn./ Wisc. Reciprocity." The Associated Press. Lexis-Nexis Universe. Online. 20 Nov. 2007.

<sup>35</sup> "Study: Wis. Sets Low Bar for Proficiency in Math, Reading." The Associated Press. Lexis-Nexis Universe. Online. 20 Nov. 2007.

<sup>36</sup> "2007 Cost of Doing Business Index." Milken Institute. December, 2006. <http://www.milkeninstitute.org/pdf/2007CostofDoingBusiness.pdf>

<sup>37</sup> Milken Institute.

<sup>38</sup> Keating, 30.

<sup>39</sup> Keating, 32.

<sup>40</sup> Keating, 36.



business in Wisconsin. Venture capitalists would have to undertake these issues primarily alone since R&D is relatively weak.

The primary barrier to entry is the lack of a new business field. California is taking a large share of the cheese market because they utilize large farms as opposed to family farms. Regardless of the moral implications of this practice, it is producing financial results. Wisconsin is relying too heavily on old industries that have not been significantly restructured or modernized in a long time, and the state is suffering as a result.