

Refocus



WISCONSIN





*The statue atop
the state Capitol
symbolizes the spirit
of Wisconsin progress.*

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Welcome,

Refocus Wisconsin is an ambitious project born of a love and concern for our state. For more than two decades we at WPRI have witnessed the key pillars of our state deteriorate.

Wisconsin's **economy** has never fully adjusted to changing national and global trends. We have been losing manufacturing jobs by the thousands, and, worse, we are not creating enough good replacement jobs.

In **education**, our schools are no longer the national leader they once were. Tragically, Milwaukee is in the process of failing its third generation of children, with no signs of a turnaround.

Our once-innovative **government** has become hidebound. We have come to accept mediocrity from state government that we would never accept from our sports teams. If a pitcher for the Brewers had done as well as our recent political leaders, he'd have been taken out in the first inning.

We know we need to make changes, but where should we begin? You hold the answer in your hand. To address these concerns, we scrupulously avoided seeking the input of the two groups who are largely responsible for our gloomy condition: politicians and special interests. Instead, we turned first to the people of Wisconsin. In the most extensive issue polling ever undertaken in the state, we asked the citizens about Wisconsin's problems and an array of possible changes. What they told us shows a severe disconnect between our leaders and the public.

The second group we engaged are some of the best thinkers and writers in Wisconsin and the nation. We asked this all-star collection of thinkers from across the political spectrum to lay out the big ideas that will get our beloved state back on track. In this volume we have included their ideas for Wisconsin, a unique combination of innovation and tough love.

Refocus Wisconsin will result in a changed Wisconsin, a Wisconsin marked by a positive attitude built around innovation, commitment and risk-taking. Through this project, we hope to create the road map to a place where our aspirations and expectations will be high and we will relish, rather than shrink from, the prospect of breaking barriers. We hope and believe that years from now, when people ask the question "What turned this state around to the positive place it is today?" they will look to this project as the starting point.

James R. Klauser
Chairman, WPRI Board of Directors

George Lightbourn
President, WPRI



History

LEAVING THE MIDDLE BEHIND— WISCONSIN'S TURNING POINT

—BY JOHN GURDA—

We sent historian John Gurda across the state to size up where Wisconsin is today, what it is thinking and what it wants. The answer to that last question resonates loud and clear from the people he talked to...it's an answer you will hear throughout Refocus Wisconsin.

Twenty-five years is not a particularly long time, even by American standards. A quarter-century is barely enough for a single generation to grow from infancy to adulthood—hardly an epoch in the annals of the republic. And yet in that blink of an eye, that snap of the fingers, the world can change on a multitude of levels.

Consider the shifts of the most recent quarter-century. In 1985, unless you were in the military, there were no cell phones, much less cell phones that took pictures. There were no iPods, no DVDs, and the first minivans were still under warranty. Some fixtures of American life have slipped beneath the waves since 1985—typewriters, card catalogs, long-distance bills—and we have grown accustomed to such new features as Google, bar codes, and Viagra.

From the technological to the pharmaceutical, these innovations are global in nature, but there have been equally impressive developments on the state level. Wisconsin has experienced transformative changes in the

last quarter-century, tectonic shifts that have moved the state materially from its traditional base. Even 25 or 30 years ago, it was possible, if you didn't look too closely, to maintain an image of Wisconsin rooted in the 19th century. For decades there were nearly as many cows as people in the state, and the standard postcard of America's Dairyland was a bucolic scene of contented Holsteins grazing in spring-fed pastures under a clear blue sky.

But the Dairy State was also a factory state, a capital of enterprise and innovation that gave a waiting world the outboard motor, the all-steel automobile frame, the rubber-tired tractor, the NESCO roaster, and enough beer to float a fleet of battleships. Wisconsin's industrial stronghold was Milwaukee, a quaintly Socialist enclave of "Old World charm and New World vigor," with cozy corner taverns serving as communal living rooms for an army of skilled workers who delivered an honest day's work for an honest day's pay.

Wisconsin's ethnic heritage seemed just as

well defined. In the popular imagination, the Norwegians were safely ensconced in Westby and Stoughton, the Swiss in New Glarus, the Germans in a hundred communities throughout the state, and the resident Indian tribes dwelt in picturesque isolation on their reservations. There were minorities in the larger cities, to be sure, but they seldom traveled beyond their home communities. The state's European imprint was unmistakable.

In the political arena, we prided ourselves on a tradition of fierce independence and legislative innovation. Wisconsin was a much-watched and rarely predictable laboratory of social change, the birthplace of such concepts as the direct primary and worker's compensation, school choice and welfare reform—and the Republican Party. We were the home of Joe McCarthy but also of Gaylord Nelson, a state whose voters have embraced mavericks from Bill Proxmire to Russ Feingold.

Wisconsin was, in short, a state that worked: a stalwart member of the Union with a solid economy, a solid citizenry, and a solidly distinctive political tradition.

Wishful thinking and a generous dose of hyperbole shaped the popular image of Wisconsin, but whatever kernel of truth underlay the prevailing stereotypes has eroded almost beyond recognition. There is not the slightest doubt that the Badger State has undergone a sea change in the last 25 or 30 years—agriculturally, economically, demographically, and politically. On a potentially overwhelming number of fronts, Wisconsin is in such a different state today that a resident returning after a few decades away might mistake it for a different state.

Some of the changes are evident in the

landscape itself. No one who travels Wisconsin can fail to notice how commerce has migrated from Main Street to the edge of town, generally coalescing around big-box retailers oriented to the nearest four-lane highway. The national retailers offer more goods under a single roof than small-city downtowns can under dozens, and the state's historic retail districts are reduced to a mix of antique shops, real estate firms, and the occasional restaurant. The pattern extends far beyond places like Plymouth and Richland Center. Most of the business once done in the center of Green Bay has migrated to suburban Ashwaubenon, just as much of Stevens Point's commerce takes place in neighboring Plover. The same scenario plays out from Racine to Wausau.

Other changes in the landscape are more subtle. Wisconsin is as large today as it was at statehood in 1848, and corn, soybeans, and alfalfa are still ubiquitous in most counties, but less and less land is devoted to agriculture—18 percent less between 1980 and 2008 alone. The number of farms supported by that land has dropped just as fast, falling from 93,000 in 1980 to 78,000 in 2008. Although Wisconsin still leads the nation in cheese production, California became America's largest supplier of milk in 1993. Ironically, more and more Wisconsin dairy farms are assuming California-scale dimensions. The average dairy herd has soared from 40 head in 1980 to 99 in 2010, and a growing number of farms are classified as Confined Animal Feeding Operations, or CAFOs—industrial-sized enterprises that milk thousands of cows around the clock in facilities as large as airplane hangars. CAFOs are technically still farms, but not in any sense that Thomas Jefferson would recog-

nize: The yeomen have become hired men. As the transformation continues, the iconic red dairy barn of tradition is gradually becoming an architectural antique, filled with horses, boats, or nothing at all.

Commercial sprawl and a new era of agribusiness have both dramatically altered the landscape of Wisconsin, but they are by no means the dominant developments of the last quarter-century. Other changes are so broad that they rise to the level of social trends, remaking not only the landscape of the state but our common life as a people.

Three trends stand out from the rest: the catastrophic decline of manufacturing, the globalization of Wisconsin's populace, and the growing gap between government and the governed. What they have in common is the loss of a shared center, a departure from common experience and civic consensus. Any of the major trends would alter the fundamental character of the state, but together they amount to a quiet revolution. Each merits fuller explanation.

THE DECLINE OF MANUFACTURING

Walk with me along Milwaukee's North Thirtieth Street industrial corridor. A single railroad track threads its way from Highland Boulevard to Congress Street, running through a concrete canyon at first and then at street level for nearly four miles. With the exception of the nearby Menomonee Valley, there was once no greater concentration of industry in

the city and perhaps the state. The Thirtieth Street corridor and its multiple sidetracks formed a sort of horizontal trellis on which scores of enterprises took root and grew. Some were national or even global in scope: Miller Brewing, Harley-Davidson, A.O. Smith (car frames), Evinrude (outboard motors), Cutler-Hammer (electrical controls), Master Lock

(padlocks), Fuller-Warren (stoves), Koehring (concrete mixers), and Interstate Drop Forge (industrial forgings). Other companies on the corridor manufactured everyday necessities like chairs, luggage, ink, doors, bedsprings, light bulbs, rope, and paint. Still others turned out what might be considered specialties: church statuary, potato chips, casket trim, pipe

organs, pool tables, and even burial shoes—slippers, essentially, that were not built for heavy wear. Together these industries, large and small, employed tens of thousands of workers.

Those workers would not recognize the Thirtieth Street corridor today. Miller Brewing and Harley-Davidson still anchor the south end, but Miller, the last major brewer in the city, has merged with Coors and moved its headquarters to Chicago. As you travel north of this historic pair, the scene becomes progressively bleaker. Ghost signs in various stages of decay proclaim "Cabinet Makers," "Plate Glass," and "Dies, Jigs, Molds and Fixtures." Graffiti cover every bridge abutment, and the banks are strewn with garbage: TVs, bicycles,

mattresses, tires, and enough bottles and cans to fill a hundred Dumpsters. A handful of the old establishments, notably Master Lock at Center Street, are still operating, but the padlock plant employs only a fraction of the 1,300 workers who once labored there. Some of the corridor's smaller shops have been converted to day care centers or churches, while their larger neighbors have been vacant for years, windows gone and roofs collapsing. You might be surprised to encounter deer and songbirds in this urban no-man's-land as nature quietly reasserts its dominion.

In the mile north of Townsend Street, you traverse a land of fallen giants. The former Evinrude plant is sealed up as tight as a medieval fort, and likewise the Interstate Forge shop. Cutler-Hammer (Eaton) still does research and development work in its office tower, but the firm's sprawling factory complex now houses a smaller manufacturer. The saddest sight of all is the former A.O. Smith factory south of Capitol Drive. In the years after World War II, soaring demand for car frames and other products swelled the Smith complex to more than 100 buildings on 140 acres of land; the fence tracing the plant's circumference was more than two miles long. The company's payroll swelled accordingly, rising to a peak of nearly 9,000 workers who kept the plant humming 24 hours a day. Many of them were African-Americans earning, for the first time, union wages in a union town.

The end came with surprising speed. A.O.

Smith was rocked by the recession of the early 1980s and practically capsized by the automotive industry's switch from steel frames to unibody construction. In 1997, the frame business and the entire North Side plant were sold to Tower Automotive, whose efforts to resuscitate the enterprise proved unsuccessful. After the all-too-familiar progression from layoffs to

wage cuts to bankruptcy, the plant was shuttered in 2006—the largest in a long line of fatalities along Thirtieth Street.

Some valiant attempts at redevelopment are under way, both within the Smith

complex and along the corridor as a whole. The programs, most involving sizable outlays of public funds, have generated some results, but no one is predicting a return to the glory days of A.O. Smith, Evinrude, and Cutler-Hammer. As the buildings decay and the garbage accumulates, the Thirtieth Street industrial corridor has a post-apocalyptic feel. An old order has vanished; a new one has yet to materialize.

"AVAILABLE"

Thirtieth Street is hardly an isolated case. Its story, in fact, is a microcosm of what is occurring elsewhere in Milwaukee and indeed throughout the state. The most accurate poster for Wisconsin's current manufacturing climate would feature a closed industrial plant with a sign out front declaring the property "AVAILABLE." Weeds now sprout in the acres of asphalt surrounding the massive General Motors

"As the transformation continues, the iconic red dairy barn of tradition is gradually becoming an architectural antique, filled with horses, boats, or nothing at all."



complex in Janesville—a factory that once employed 7,000 area residents—and the parking lots around the Delphi plant in the Milwaukee suburb of Oak Creek are just as overgrown. But the job losses are by no means confined to the larger cities. From the Crepaco plant in Lake Mills to the Cummins factory in Wautoma to the NewPage paper mill in tiny Niagara, the decline of industry has been general and generally disruptive, if not disastrous. In 1979, before a recession that ravaged the industrial sector, 583,000 of Wisconsin’s workers were engaged in manufacturing—27 percent of the total. By 1983, the state had shed 123,000 of those jobs, a drop of 21 percent in just four years. Despite an encouraging rebound that lasted through most of the 1990s, employment began to fall again in 2000. By 2008, the manufacturing sector provided 476,000 Wisconsinites with jobs, and their share of total employment had fallen to 16.3 percent.

Metropolitan Milwaukee, the state’s industrial pacesetter for generations, has set the pace for its decline as well. The number of Milwaukee manufacturing jobs plummeted from its historic high of 220,200 in 1979 to 115,100 in 2009—a drop of 48 percent in three decades. The proportion of the metropolitan workforce employed in manufacturing sank to 14.2 percent during the same period—a cataclysmic fall from its peak of 56.9 percent in 1951.

“Weeds now sprout in the acres of asphalt surrounding the massive General Motors complex in Janesville—a factory that once employed 7,000 area residents...”

Offshore Winds

The roots of the devolution are not difficult to trace. Wisconsin’s economy came of age with the wind at its back. The currents of enterprise and ingenuity flowed directly through the Midwest in the late 1800s, drawing people with little to lose and everything to gain. By 1900, as hundreds of shops turned promising ideas into prosperous realities, metal-bending had become Milwaukee’s most important industry, and manufacturers from Beloit to Green Bay to Superior were hiring workers by the thousands. Milwaukee proclaimed itself the “Machine Shop of the World,” and Wisconsin became the western province of an industrial heartland stretching east through Chicago to Detroit,

Cleveland, Buffalo, and Pittsburgh.

That pattern held, through booms and busts, for the next eight decades. Then, not many years ago, the wind began to blow in a different direction: offshore. Since the late 1970s, local jobs and local dollars have been migrating to lower-wage producers all over the globe, most recently and most notably to China. Once the stuff of think-tank papers and economic summits, the “global economy” became an established reality. As China sought to become the world’s factory floor, even the oldest of old-line manufacturers were drawn to its promise of comparable quality at sharply lower costs. The Actuant Corporation, formerly Applied Power, was once a hydraulic-tools

giant owned by the Brumder family, a pillar of Milwaukee’s German aristocracy. All of Applied Power’s production took place in a single factory in West Allis. Today’s Actuant is a multi-national, multi-line conglomerate whose sourcing staff in China outnumbers its entire corporate staff in Milwaukee.

The wonder is that, even after years of steady attrition, Wisconsin still retains a strong manufacturing base—relatively speaking. The state has lost industrial jobs, but other states have lost them much faster. Although payrolls are a fraction of their former size, Wisconsin had America’s highest concentration of manufacturing jobs (15.8 percent) in 2009, and Milwaukee (14.2

percent) is second only to San Jose among the nation’s largest metropolitan areas. Globalization, to coin a phrase, is a global phenomenon. As the world develops a single central nervous system, geography has lost much of its relevance, and Wisconsin and Milwaukee are left with larger portions of a shrinking pie.

The fact that the dislocations are so widespread makes them no less painful. As a maker of place, nothing trumps the economy. A community’s setting might be glorious and its weather grand, but no one—with the exception of the exceptionally affluent—settles there without some means of financial support. For countless Wisconsinites, manufacturing supplied that means. It was their surest and often their only route to the middle class: the source of down payments for their homes, cash for

their cars, and tuition checks for their children. Generations of workers grew up and grew old working for the same employer, starting as apprentices fresh out of high school and staying until retirement.

Absolutely no one has those expectations today. It has taken only three or four decades for the possibility of lifetime employment to vanish, but it has vanished forever, and nothing, really, has replaced it. What the last

generation of Wisconsinites took for granted seems as distant today as the era of spinning wheels and kerosene lanterns. Even 25 years ago, some state residents were at least mildly uncomfortable with the beer-and-brats image rooted in our

blue-collar ethnic heritage; it was too lowbrow for comfort, too déclassé. Now they’d give anything to have those industrial jobs back. Legions of dislocated workers have struggled to land lower-paying employment, and prevailing wages for the manufacturing jobs that remain have fallen steadily. In constant dollars, the average annual wage for Wisconsin production workers dropped from \$44,669 in 1978 to \$38,007 in 2008—a decline of 15 percent during a period when white-collar jobs were posting impressive gains.

The Story of Willie Boston, Jr.

Return with me to the Thirtieth Street industrial corridor. If you walk the blocks east of the old A.O. Smith plant, you might see Willie Boston, Jr. sitting on the front porch of his



tidy bungalow. Born in Oxford, Mississippi, Boston is a sharecropper's son who moved with his family to Milwaukee when he was 10. His father worked in construction, but Boston got a job at A.O. Smith in 1968, beginning as a laborer but spending most of his career as a welder. By the time he retired in 2003, Boston was earning \$23 an hour, with full health insurance benefits, a solid pension plan, and six weeks of vacation. His children have not fared as well. Willie Boston's son was passed over by Smith's hiring department because he lacked a high school diploma. He became a long-haul trucker, earning far less than his father. Boston's daughter is a child-care worker making \$7.50 an hour.

A father's opportunities are not passed on to his children. The ladder to the middle class loses its lower rungs. "Entry level" is redefined as low-wage, dead-end employment, and, in the lengthening gaps between jobs, a permanent underclass grows. What is Willie Boston's prognosis for the younger generation? "I feel sorry for 'em," he says. "You can't make it on \$7.50."

THE CHANGING FACE OF WISCONSIN

When Shoua Thao came to Wisconsin from Southeast Asia in 1979, he was a 15-year-old refugee who spoke very little English, had never experienced winter, and had no idea who the Green Bay Packers were. Thao had, in fact, never heard of American football; soccer was the game of choice in the Hmong refugee camp where he had lived previously. During the Vietnam War, his father, a farmer in the northern highlands of Laos, was recruited by CIA operatives to fight on America's side. He rose to the rank of lieutenant, leading other

Hmong soldiers into battle against the Communist forces. When the United States pulled out of the region in 1975, Hmong partisans who had fought in the "secret war" were left behind and singled out for persecution by the victorious Communist regime. Shoua Thao and his family were forced to live in the jungles of Laos for months at a time, subsisting on rice and, when the rice ran out, wild plants. In 1978, Thao and an uncle struck out on their own, crossing the dangerous Mekong River at night to the relative safety of a camp in Thailand.

America finally acknowledged its debt to these endangered allies. After varying lengths of time in the crowded camps, most Hmong refugees were resettled in the United States. Catholic and Lutheran agencies, traditionally strong in the upper Midwest, took the lead in resettlement efforts. As a direct result, Minnesota and Wisconsin today trail only California in the size of their Hmong populations. Shoua Thao and a brother were sponsored by a Beaver Dam church group in 1979. They moved to Madison, where Shoua graduated from high school, and then to Green Bay, which has become the home of their parents and siblings as well. As a member of the first wave, Thao has spent his career helping later arrivals adjust to life in Wisconsin, first as an employment specialist for a state-sponsored refugee program and currently as a bilingual aide for the Green Bay school district.

Shoua Thao is one of an estimated 5,000 Hmong residents in the Green Bay area, but Titletown is hardly the group's only settlement in Wisconsin. His story, or a variant of it, is repeated all across the state. Although Milwaukee has the largest concentration, there are

significant Hmong communities in Wausau, Madison, Sheboygan, Appleton, La Crosse, Eau Claire, and a number of smaller cities—all established by refugees who helped American forces in Southeast Asia and suffered exile as a consequence. More than 50,000 strong—enough people to fill La Crosse and then some—the Hmong have become the largest Asian group in the state.



The Hmong also illustrate a larger point. Just as globalization has remade the Wisconsin economy, it is remaking the state's population as well. In the last 25 or 30 years, newcomers have arrived from all over the world, updating and transforming our inherited ideas of ancestry. As might be expected, the trend is most pronounced in Milwaukee. Large cities have always been major points of entry for new arrivals, and few cities have received more, in proportional terms, than Wisconsin's metropolis. In 1890, immigrants and their children accounted for 86.4 percent of Milwaukee's population, making it the most "foreign" city in America. In recent decades, the city has resumed that tradition with an entirely different cast of characters.

South Sixteenth Street provides a perfect example. In the 1970s, fresh out of college, I worked at a youth center on the street called

Journey House. The near South Side in those years was what a later generation would describe as "Anglo"—filled with non-Hispanic whites from a variety of European backgrounds. The families who used our center were uniformly blue-collar, and many of them had moved from elsewhere in Wisconsin—Two Rivers, Cascade, Sturgeon Bay, Phillips—to take advantage of Milwaukee's abundant factory jobs.

Burgers to Tacos

More than 30 years later, Sixteenth Street bears almost no resemblance to its earlier incarnation. The Driftwood Restaurant, where we used to gather for greasy burgers and chocolate shakes, is now Taqueria Jalisco. Karpek's Accordion Store has become Super Mercado La Hacienda. Schupp's Radio Shop—an antique even in the 1970s—is now El Tianguis clothing store. Between Pierce Street and Greenfield Avenue, Sixteenth is lined with restaurants, money-order shops, and other businesses with names like El Pollo Feliz, El Punto, Los Comales, La Ley, Las Reynas, El Charro, and the biggest, Mercado El Rey—a grocery store and restaurant whose new quarters cover most of a block. From The Happy Chicken to The King, the blocks I knew in the '70s have become the Main Street of Latino Milwaukee. A stroll down Sixteenth today is like a visit to the Mexican border. Spanish is the dominant language, and local stores offer a daunting variety of peppers, piñatas, soccer shirts, and cowboy hats. In 1996, the street's name was officially changed to Cesar Chavez Drive, in honor of the Mexican-American labor leader.

Although its Latino imprint is most obvious, Milwaukee's near South Side is hardly monolithic. There is a Hmong store on Chavez

Drive, and the surrounding residential areas are a cosmopolitan blend of African, Southeast Asian, Native American, and European ancestries as well as Hispanic. In 1967, protesters led by Father James Groppi marched down all-white Sixteenth Street to demand an ordinance banning residential segregation. More than 40 years later, open housing on the South Side is an accomplished fact.

The pattern of diversity has become general. Milwaukee itself became a “majority minority” city in the late 1990s. Its African-American population—a presence since the 1830s—swelled to 37 percent of the total in 2000, and other non-European groups have rounded out the majority.

They include newcomers from the Middle East and Africa as well as Latin America and Southeast Asia—groups that have broadened the area’s religious profile significantly. The Islamic Society of Milwaukee purchased an old public school on the far South Side in 1982. It has since blossomed into a full-service institution with two imams (religious leaders) and a school accommodating 700 students from kindergarten through high school. In 1968, Milwaukee’s Muslims gathered for the annual Eid prayers in an apartment. Today the services draw nearly 6,000 people, and the entire Muslim community is at least twice as large. Its members constitute a virtual league of nations, tracing their lineage to Pakistan, India, Palestine, Egypt, Iraq, Lebanon, Syria, Afghanistan, and such disparate locales as

Burma and Somalia.

The suburbs, too, have felt the cultural shift. The Hindu Temple of Wisconsin opened on a 20-acre parcel in Pewaukee in 2000. After outgrowing an old bank building in the Bay View neighborhood, the Sikh Temple of Wisconsin relocated to Oak Creek in 2007. Shorewood and its North Shore neighbors experienced

the trend even earlier. In the late 1980s, when the Soviet Union began to ease restrictions on the movement of its Jewish citizens, a flood of the disaffected reached America’s shores. They settled virtually everywhere an American Jewish community was there to receive them, including Milwaukee. Nearly 4,000 Soviet Jews started over in the metropolitan area, most

of them beginning in Shorewood. They have since spread as far north as Mequon, but Russian is still the dominant language in a number of Shorewood apartment buildings.

As metropolitan Milwaukee assumes a broader ethnic identity, the rest of the state has begun to look more like Milwaukee. In Jefferson, the self-proclaimed “City of Gemuetlichkeit,” where the cemeteries have their share of Moldenhauers and Haubenschields, at least 7 percent of the population—and more than 12 percent of public school enrollment—is Hispanic. The biggest restaurant on Main Street is El Chaparral, “House of Authentic Mexican Food.” In Portage County, generations of Polish farmers brought their produce to market on the public square in downtown

“...many of the new Wisconsinites are doing precisely what the generations before them did: getting on with the business of becoming American.”

Stevens Point. The farmer’s market is still going strong, but today’s vendors are more likely to be Hmong than Polish. Even Madison, a city whose diversity was once supplied by international students on the University of Wisconsin campus, has developed a demographic profile that older residents might find surprising: 6.4 percent African-American, 6.2 percent Asian, and 5.9 percent Latino in 2005. Some of the larger trends of the last quarter-century have begun to intersect. As Wisconsin’s dairy herds increase in size, there has been a corresponding increase in the immigrant labor force. Latinos make up nearly 60 percent of the dairy workers on farms with over 300 cows—a total of more than 5,000 people.

The numbers for the state as a whole are revealing. Between 1980 and 2008, African-Americans grew from 3.9 percent of Wisconsin’s population to 6.1 percent, Asians from 0.4 to 2 percent, Native Americans from 0.6 to 1 percent, and Hispanics from 1.3 to 5.1 percent. These traditionally defined minorities accounted for 14.2 percent of the state’s population in 2008—a sharp increase from 6.2 percent in 1980. You can still celebrate Syttende Mai with the Norwegians in Stoughton, observe Cesky Den with the Czechs in Hillsboro, and enjoy Oktoberfest with the Germans in Milwaukee and elsewhere, but other players have taken their place at the table.

The implications for the state—social, political, and economic—are still emerging. At the very least, the presence of so many different cultures is forcing other residents to recalibrate their ideas of what it means to be a Wisconsinite. The Badger State was once a polyglot’s paradise, but the languages its citizens spoke were practically all European. Today’s context

is global, and the state’s population, no less than its economy, reflects forces that are international in scope. How well the natives and newcomers are adjusting to each other remains open to question. There have been relatively few incidents of open conflict between the older groups and their more recently arrived neighbors, but there has also been relatively limited interaction and even less assimilation.

For their part, many of the new Wisconsinites are doing precisely what the generations before them did: getting on with the business of becoming American. Shoua Thao, the Hmong refugee who began this account, is a case in point. He now lives on 24 acres near Denmark, a small town southeast of Green Bay. The Danes who established the village could not have foreseen such a development, but Thao has adapted to his host culture with alacrity. He has become, among other things, a devout Packers fan. As a self-described “tiny little guy,” he’s too short to follow the action at regular games, but the refugee attends practices regularly, collects autographed footballs, and owns green-and-gold jerseys bearing the names of Aaron Rodgers, Donald Driver, and A.J. Hawk. Every Friday during the football season, he wears one of those jerseys to his job in the Green Bay schools. “The kids love it,” says Thao, and so, obviously, does he.

GOVERNMENT VS. THE GOVERNED

The veteran lobbyist has seen it all. Wisconsin’s Capitol has switched from Democratic to Republican and back again multiple times during his long career, hundreds of legislators have come and gone, and the body of statutes has grown substantially. But he has never seen anything quite like the current situation in

Madison. “The endgame,” he says, “used to be to get the job done, do your business, and go home. Now the endgame is to stay in power.” When the lobbyist began to walk the halls of the Capitol in the 1960s, legislators had other things to do. The Wisconsin Senate, for instance, met on Tuesdays, Wednesdays, and Thursdays so that its members could get back to their regular jobs. Unless they were committee chairs, the senators had no offices. Five of them shared a single secretary, and the members of this august body were paid \$300 a month.

The days of the part-time legislator are long gone, and with them the days of the \$1,000 political campaign. Getting elected—and staying elected—has become a full-time job, requiring the support of skilled staff members, a sophisticated party apparatus, and constant fund-raising. The professionalization of politics has not necessarily produced better government. The need to stay in power, in fact—the need to win at all costs—has been a major factor in the growing partisan divide of the last decade or two. Republicans and Democrats line up on either side of the ball like football players with a grudge, intent on doing maximum damage to each other. Politics has become a blood sport, with no quarter given and none asked.

In this charged partisan atmosphere, even symbolic measures take on an emotional weight that may exceed their true importance. During a recent Assembly session, Democrats

planned to introduce a resolution commemorating the fatal shooting of seven Milwaukee strikers by state militia troops during the 1886 demonstrations for the eight-hour day. Even though the marches occurred nearly 125 years ago, some Republicans took vigorous exception to the proposal. The Democrats then noted that the Assembly parlor contained a

portrait of Jeremiah Rusk, the Republican governor who ordered the militia to “fire on them” in 1886. They requested that the painting be removed from its place of honor, which drew more howls from the Republican side. Rusk remained on the wall, but Democrats received the Assembly speaker’s permission to drape the portrait in black cloth. Such political

sideshows may be diverting, but they indicate a serious inability to get along.

Toxic Partisanship

You have to go back to the 19th century to find a climate more vituperative. In the 1830s, it was not unusual for one Wisconsin politician to blast his opponent as a “whiffing, hypocritical pimp” and to be castigated in turn for his own “impotence and imbecility.” Office-seekers questioned each other’s ancestry as well as their integrity, and disagreements sometimes escalated to the point of physical violence.

Even if today’s duels are only rhetorical, the return of partisan enmity has not been a positive development for the state. There are certainly people of talent and vision in the Wisconsin

“During the Gilded Age of the late 19th century, political corruption was as prevalent in Milwaukee and Wisconsin as it was in most other sections of the country...”

Legislature, but even they are drawn inextricably into the us-vs.-them polarity. A political variant of Gresham’s Law begins to take hold. Just as bad money drives out good from the marketplace, the bitterly partisan tenor of state government discourages people of intelligence and equanimity from getting involved. The current environment seems to favor those with fixed ideologies and a taste for combat—and without a nuanced, patiently cultivated understanding of how government really works.

It goes without saying that these trends are not limited to the Badger State. The professionalization of politics, the rise of toxic partisanship, and the monetization of campaigns are as apparent in 49 other statehouses—and in the U.S. Capitol—as they are in Madison. But Wisconsin’s climate shows the influence of factors particular to the state. The first is a traditionally high expectation of our public servants. During the Gilded Age of the late 19th century, political corruption was as prevalent in Milwaukee and Wisconsin as it was in most other sections of the country. That changed with the rise of the Socialists in Milwaukee and the Progressives in Wisconsin.

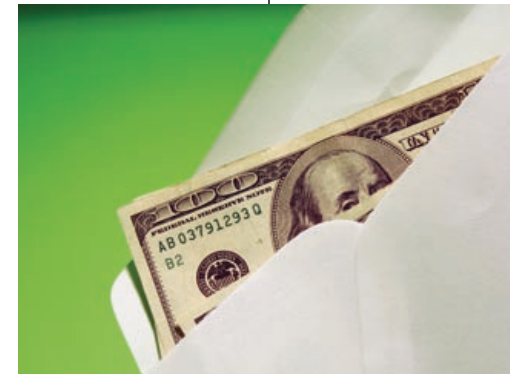
Victor Berger, the chief architect of the city’s Socialist movement, was fond of saying that honesty was the highest quality to which a Democrat or Republican could aspire. “With us,” he crowed, “this is the first and smallest requirement.” Robert La Follette and his fellow

Progressives placed a similar emphasis on moral probity. The result was a squeaky-clean ethical climate that became normative throughout the state and persisted long after the third-party movements had lost their vigor.

Wisconsin’s sky-high expectations have been rudely disappointed in recent years. There had been earlier lapses, but a perfect storm hit the state between 2000 and 2002. Mayor John

Norquist of Milwaukee confessed to a “consensual sexual relationship” with a female staffer. Milwaukee County Executive Tom Ament and the County Board approved a stunningly generous pension plan for non-union employees. In Madison, legislative leaders

Chuck Chvala, a Democrat, and Scott Jensen, a Republican, were indicted for putting public employees to work on behalf of candidates supported by their respective caucuses. Back in Milwaukee, one alderman faced prosecution for misappropriation of federal funds, and two more would follow. All of these misdeeds took place in a period of less than two years. The caucus and pension scandals might not have raised many eyebrows in Chicago, Providence, or Atlantic City, but they prompted a massive backlash in Wisconsin. Tom Ament and John Norquist resigned, seven Milwaukee County supervisors were recalled, and a number of politicians in Milwaukee and Madison went to jail. The normally placid waters of Wisconsin politics were roiled beyond recognition, and the ship of state seemed utterly adrift. A sense



of direction, or at least stability, finally returned, but not before many Wisconsinites had developed grave misgivings about their state's political course.

If some public officials have been major disappointments, so have some public institutions. Wisconsin has traditionally considered itself a state that works, and innovations

like the Wisconsin Idea, which brought the resources of the university to bear on matters of public policy, encouraged a widespread belief in the efficacy of government. Fewer residents share that belief today.

In the statewide poll taken for this project, 43 percent of those questioned think the state government is doing only a fair job and a full quarter rated it poor.

From exorbitant cost overruns on computer systems to a troubled child welfare system, individual units of state government are patently not working, but Exhibit A for the disenchanting is the Milwaukee Public Schools. Despite some individual successes and a number of exemplary programs, MPS as a whole has been unable to turn around its dismal record of student achievement and find a sustainable solution to the problems of urban education. The system's leaders resemble a group of mechanics watching a vehicle hopelessly mired in the mud. They can come to only one conclusion: "Yup, she's stuck, all right." As they continue to pour gas into the tank, the wheels keep spinning, and the taxpayers at the pump wonder what they're getting for their money.



Taken together, the forces shaping Wisconsin's public life have opened a distinct gap between government and the governed. The divide reflects, to an important degree, the culture of partisan competition that has seized the Capitol—the I'm-right-and-you're-nuts school of political discourse that seems endemic there. State politics in the 21st century

has come to resemble a gigantic rugby scrum, with each side pushing blindly toward its goal—total subjugation of the opponent—rather than serving the interests of the people. When you add a few players flagrantly

breaking the rules and a stadium showing signs of poor upkeep, the game becomes both grimmer and less engaging. Spectators stay away, and even the roster of participants thins to the diehard partisans.

These patterns reflect the more general disengagement from civic life so painstakingly analyzed in Robert Putnam's *Bowling Alone*, but they are particularly painful to observe in Wisconsin. Earlier generations of state residents shared a view of government as a basically collaborative "us." With the rupture of trust that has taken place in recent years, more and more Wisconsinites see government as a fundamentally predatory "them." That shift in perspective, that loss of faith, may be the most troubling trend of all.

SEARCHING FOR THE CENTER

Wisconsin is not on the verge of collapse. You can still find excellent Swiss cheese in Monroe

and first-rate bratwurst in Sheboygan. You can still canoe the broad Wisconsin River, stroll along the gin-clear waters of Lake Superior, and bicycle on one of America's most extensive networks of dedicated trails. The economy, too, has its share of stand-outs, from Milwaukee giants like Johnson

Controls and Northwestern Mutual to the biotech firms on the west side of Madison. Wisconsin's distinctive blend of landscapes and its equally distinctive blend of cultures make the state unlike any other in the nation.

Wisconsin is not on the verge of collapse, but it is in the throes of change—pervasive and fundamental change that has forever altered our traditional understandings. The pillars of an older order have crumbled.

Our manufacturing economy has shredded, our sense of peoplehood is being transformed, and our faith in our democratic institutions and the people who lead us has eroded. What these and other trends of the last quarter-century have in common is their direction. In ways both literal and metaphorical, Wisconsin is leaving the middle behind. As commerce moves from the heart of our communities to the edges, the middle is left behind. As the state's farms become fewer and larger, mid-sized operations are disappearing. As the supply of family-supporting industrial jobs dwindles by the year, our middle class becomes a threatened species. As the state's accent shifts from a European amalgam to a broader Babel, the cultural

middle is increasingly difficult to locate. As polarization grips Wisconsin's Capitol, middle ground of any description is conspicuously absent. On a multitude of levels, the center has not held.

These matters are, or should be, of grave concern to every Wisconsinite, wherever he or she

resides on the political spectrum. The economic trends endanger our very livelihoods. Our growing diversity could be enriching, but only if older groups see the presence of new cultures as an opportunity rather than a threat. The political trends imperil the continued health of our civil society. All of these shifts cry out for attention, but we have been, for generations, a state short

on urgency and light on outrage. There is a phlegmatism abroad in the land, associated by stereotype with the solid, stolid burghers of central Europe who sent their progeny to America's heartland. But ignoring the trends will not diminish their impact. In some respects, Wisconsin has come to resemble a dinosaur that's grown so large and cumbersome that its tail is half-eaten before its brain senses a problem. The result, later or sooner, could be the extinction of our economic and cultural viability, of our capacity to hold our young and look after our old.

We are left, in the end, with questions. How can Wisconsin preserve the manufacturing jobs it has and create new opportunities for the next

“State politics in the 21st century has come to resemble a gigantic rugby scrum, with each side pushing blindly toward its goal—total subjugation of the opponent—rather than serving the interests of the people.”

generation? As the global economy reshapes our workforce, how can we avoid the perils of a permanent underclass? As we become a state of many peoples, how can we remain one people? Will we be able to enlarge our concept of the commonwealth to embrace citizens from all over the globe? Can we forge even the most rudimentary political consensus? Will we ever again develop statesmanlike centrists like Warren Knowles and Patrick Lucey—and the climate that nurtured them? And the biggest question of all: How can Wisconsin recover its past greatness as a stronghold of innovation, a wellspring of cultural vitality, and a laboratory of democracy?

The state has indeed changed enormously in the last quarter-century. Old assumptions have been upended, and troubling new questions have been raised. Although Wisconsin's changing ethnic profile presents definite opportunities, the major trends have been experienced by most residents as a movement downward—in their quality of life, in their satisfaction with government, and in their prospects for the future. But the gathering crisis has so far been met with a collective shrug. It is the purpose of this report to call Wisconsinites to awareness and then to action, because it is only through informed awareness and concerted action that our state can reclaim its place in the nation's vanguard. It is only through knowledge and hard work that we can, after so many years of attrition, make our next quarter-century a time of change for the better.

“In the papers that follow, one theme seems to rise above the rest: Wisconsin is in desperate need of bold, honest and energetic leaders...”

In the papers that follow, one theme seems to rise above the rest: Wisconsin is in desperate need of bold, honest, and energetic leaders—leaders who will put the interests of the state above the state of their campaign funds. Party

does not matter, gender does not matter, color does not matter; the essentials are a passion to serve and a long-term perspective. While many of the forces transforming our state are global in scope, it becomes clear that our politicians have been unable to shelter their constituents from the storm. Stale thinking and uninspired half-measures

have been the order of the day in Wisconsin, while leaders elsewhere have moved decisively to meet new challenges and seize new opportunities. It is still possible to build a sound future on the solid foundation of our past. The people of Wisconsin require—and deserve—no less.



Government reform

THE STATE CRISIS AND NEED FOR A NEW CHARTER

— BY STEPHEN GOLDSMITH WITH JAYSON WHITE AND RYAN STREETER —

Stephen Goldsmith, the transformative former mayor of Indianapolis and someone who studies government, offers us some truly innovative ideas on how to change and adapt our state government. Based on the polling done for this report, it could not come fast enough. Wisconsinites want bold innovation. With charter government, Mr. Goldsmith offers it.

OVERVIEW

The American political system—with its system of checks and balances and unique division of responsibilities among federal, state and local authorities—has created the conditions for an unprecedented expansion of personal wealth and political freedoms. However, the recent growth of government’s size, scope and impact on both the private sector and the political process threatens to weaken, and even reverse, these remarkable gains.

Despite our successful form of government, our prosperity is increasingly endangered by a public sector that has grown overly expensive, decreasingly effective, less responsive to the interests of citizens and excessively controlled by special interests. Government bureaucracies have become ossified and resistant even to marginal improvement. The types of disruptive innovation in the private sector that deliver increasingly better products at better prices have become effectively outlawed in most of

the public sector.

We have entered a new era of big, muscular government. Political leaders believe that no problem is too complex or too costly for government to address. Citizens, now more accepting of government’s rapidly expanding mission, have come to expect far more from the state than they are willing to pay.

As a result, the ability of government to execute its core tasks efficiently, alongside the size of public debt, threatens to compromise the quality of life and America’s future prosperity in a fundamental way. What is needed to reverse this is a bottom-up assessment of how government operates, agreement on the national priorities government should address in the future, and a realignment of government resources and activities to efficiently address these priorities.

But as dysfunctional as government has become, it would be a mistake to overlook political leaders, government workers and citizens

as allies and advocates of reform.

Americans understand the seriousness of the need for a new approach to government, and Wisconsin residents in particular appear to be even more clued in. Nearly two-thirds of Americans believe that the nation is on the wrong track.¹ And WPRI’s recent polling shows a slightly higher portion of Wisconsin’s citizens believe the state is on the wrong track and are frustrated or angry with state government.²

At the same time, public servants at all levels struggle to cope with a corresponding increase in demand for services and decrease in public resources to solve problems. In my 10 years directing the Innovations in American Government program at Harvard’s Kennedy School

of Government, I saw countless examples of government innovations that effectively met critical needs. But more often than not, these innovations improved the quality or quantity of a government service but did not address the structural deficits now facing local and state governments.

Elected officials and civil servants who successfully implement innovative reforms cannot on their own overcome the systemic downward drag that special interests, government bureaucracy and counterproductive rules exert on good ideas and enterprising behavior. This should not come as a surprise; bureaucracy almost always has a stultifying effect on innovation. But to solve this dilemma, we need

to answer two fundamental questions in order to achieve widespread reform.

First, do we have the tools needed so that government can once again be “of, for, and by the people,” rather than a relentlessly growing set of activities and subsidies fueled by special interests? Make no mistake: This article is not about small government per se, nor about

whether any particular public program is appropriate. Rather, the focus of this paper is how to address the overarching problem of the unaffordable growth of government and runaway spending. *In short, this article is concerned with ending our addiction to expanding government.*

Second, how do we structure a new and better marketplace for high-impact policy ideas in the

delivery of public goods? Effective management innovations and best practices in public policy spread between jurisdictions and among divisions in individual governments far too slowly. Lack of customer pressure and competition causes governments, unlike successful private-sector enterprises, to adapt to the needs of a changing marketplace.

Though public innovators have found answers to these types of questions in isolated instances, no single government has put into practice a full package of innovative ideas that recalibrates the public sector to prioritize the general public good over special interests in a sustainable way. As a result, rather than being a provider of general public goods, government

“...do we have the tools needed so that government can once again be ‘of, for, and by the people,’ rather than a relentlessly growing set of activities and subsidies fueled by special interests?”

has too often become a tool of the well connected, who know how to manipulate its rules and bureaucracies for their own interests. And elections, which could be seen as the great leveler, have increasingly given more power to incumbents—at least until this year.

What we need and what we suggest is a new “charter” approach to government—one that prioritizes citizen involvement in decision-making, transparency in transactions, accountability for results, and the ability to change course when things fail to work out as planned. An opportunity exists for state and local governments to take the lead in constructing a comprehensive approach to government innovation. Wisconsin, a proven leader in reform, should capitalize on its unique human, physical, economic and political resources to put such a comprehensive package of reforms into practice.

This paper will outline the major barriers to long-term progress in the public sector, discuss a package of reforms capable of overcoming these barriers and make recommendations that could help make Wisconsin a leader in government innovation the way the state led the charge to welfare reform in the 1990s.

INTRODUCTION: WE CANNOT AFFORD THE GOVERNMENT WE HAVE CREATED

Government performance is profoundly threatening the conditions of future prosperity in ways previously unknown in American history. Unlike the 1970s, for instance, when high tax rates, monopolistic government behavior and unhelpful market interventions such as wage and price controls significantly contributed to

economic stagnation, our current situation is even more difficult to resolve. The growth of public debt and deficits resulting from unreformed programs with vested interests—be they public unions, privileged contractors, healthcare providers, or whatever—presents a new challenge to the future of American economic growth and opportunity. These are not the “evil” special interests that Hollywood loves to caricature, but organizations of all stripes that behave quite rationally in a system in which their success (and sometimes even their survival) depends as much, if not more, on government support as on their relevance to the private economy.

As vested interests incrementally win one battle after another, the rising cost of government becomes self-perpetuating. Ultimately, and perhaps ironically, this expansive appetite for the “goods of government” reduces the capacity of government to provide public goods.

At the federal level, expenditures on mandatory spending and entitlements *alone* (Social Security, Medicare, Medicaid and debt service) were slated to surpass all projected revenues by 2050³—even before the financial crisis that began in 2008. Without massive increases in taxes, there will be no federal dollars left for anything else—no federal money to mount a national defense, support education at any level, ensure public safety or develop or even maintain our physical and economic infrastructure. According to conservative estimates, federal debt will reach 85 percent of GDP by 2018, 100 percent by 2022, and 200 percent in 2038.⁴ This is a severe threat to economic growth, which recent historical research shows drops on average by 2 percent annually for economies with debt loads above 90 percent.⁵

Constricting economic activity in this way constitutes a direct threat to the American way of life and the ability of each generation to leave to its children a better way of life than it enjoyed.

Cash-strapped states, now increasingly dependent on federal funds for local projects (and likely unable to borrow due to the decreased availability and increased cost of debt), will have nowhere to turn. States such as Wisconsin that have dramatically increased borrowing to cope with the economic troubles of the past decade have become reliant on debt as a way of life. Wisconsin’s debt nearly tripled over the past 10 years,⁶ and the habit of paying for current obligations with future earnings has only served to delay and make more challenging the difficult choices that Wisconsin will now need to make in the near future.

The current crisis is not created simply by a lack of money but rather by a system bent to the point of breaking. Government consistently makes decisions based on the political economy rather than the market economy. Politicians’ decisions are driven more by political considerations—i.e. re-election—than because market factors have determined the best outcome. This cycle of narrowing interests and political motives plays a major role in creating government’s resource scarcity.

This weakness in our political system was anticipated by James Madison in

Federalist Paper No. 10, in which he warns of the emergence of “factions,” or citizen groups whose interests do not represent the general good. In Federalist 10, Madison argued that in a national government these groups would effectively cancel each other out through the workings of constitutional checks and balances and representative democracy. But today those

interests accumulate rather than providing any meaningful check on others’ increasing influence. This leads to a situation in which everyone wins—except the taxpayer.

Do we have the tools to allow government once again to be controlled “of, for, and by the people,” rather than by a relentlessly growing set of activities and subsidies that benefit

various “factions”? To some extent we have been seduced by a misunderstanding of the concept of collective goods. When government creates special programs, subsidies and policies for particular groups of people, it effectively establishes an equal-treatment principle by which any new group can claim a right to tailored services if they can find political leaders to champion their cause. Because claiming one’s “fair share” becomes the de facto principle of politics and governance, government naturally expands beyond its necessary size, cost and core mission.

A good diagnosis of the problem will help point the way to a cure. The causes of government’s resistance to reform include:

“States such as Wisconsin that have dramatically increased borrowing to cope with the economic troubles of the past decade have become reliant on debt as a way of life.”

1) The growth of government programs itself creates new, vested constituencies. Thus the very size of government creates its own momentum for more. Government agencies and programs virtually never have an incentive to work themselves into obsolescence or to make their own reduction a strategic goal.

2) “Iron triangles” form around those who corner some particular government market which precludes the necessary transformative change that comes from introducing new partners or new ideas into the mix. Bureaucrats naturally tend to form a relationship with those whom they fund or regulate and with the legislative committees responsible for their programs. New entrants need to be extremely clever or strong to break through these barriers. The net result of this dynamic is that preferred providers are not forced to improve or innovate due to their lack of exposure to competition and new ideas, the twin engines of progress in a normal market economy.

3) Government structures often give too much authority to single-interest agencies or entities. Well-intentioned professionals will always try to maximize results in their area of responsibility, especially if the trade-offs are not important to them. I remember when a dozen fire chiefs from various jurisdictions affecting Indianapolis approached me as

mayor with a single-minded proposal to install sprinklers in every older building in the city. While this plan would have mitigated the risk of fire in some marginal way, the related costs would have rendered worthless a large number of those buildings. The economic drain on the city or related dangers simply did not touch their mission.



Similarly, across the country single-purpose taxing districts such as schools or libraries try to maximize resources in their sphere of control, not merely for parochial interests but because they are understandably convinced of the priority and importance of their work. I battled the Indianapolis Library Board, which even as the mayor I did not control, to restrain its insatiable appetite for property taxes. The library board was a single-purpose taxing district which had few real checks on its ability to raise taxes, and so it ultimately waited me out and launched a new \$100 million library and other expensive

expansions, paid for with tax increases on Indianapolis residents. The record of locally elected school boards that have the authority to raise taxes is similar: They work to maximize resources in areas that they legitimately believe are important. However, as vested interests, they tend to overpower democracy by allowing their understanding of what is needed to take precedence over more important student needs, with essentially no constitutional checks on their activity.

4) Despite recent improvements in the public availability of government information, the lack of transparency continues to give public officials the upper hand over citizens. Impressive gains in web-accessible data help taxpayers access the information they need to hold government accountable. Yet too often this increased visibility only provides a view into government’s hopelessly confusing systems. For example, many local officials claim they have held the line on taxes because they have not increased rates, while they allow assessed home values to increase at a rapid rate. Homeowners end up paying more in taxes without any clear idea why and with very little access to information that would help them know how to stop it.

5) Legislative organization has grown to favor narrow interests rather than the public good it was originally established to serve. In state assemblies, city councils and Congress the committee and subcommittee process tends to support the status quo much more rigorously than it exercises its chief responsibility to hold accountable the agencies that the committees authorize and fund. The problem starts with earmarking but does not end there. Earmarks undoubtedly send a clear message to bureaucrats that the legislative branch cares more about using public funds for constituent relationships than it does about squeezing value from each tax dollar. But the problem goes much deeper, as the legislative subcommittee insulates the agency from transformative change that even the rest of the Assembly might support. As mayor, I urged the president of the City Council to take large transformative projects through a Rules Committee or Com-

mittee of the Whole in order to inject fresh thinking about the issue and allow a broader range of perspectives about the public good to guide and inform the process.

In the early 20th century, the Progressive era, with its birthplace in Wisconsin, transformed city, state and federal governments, ending the culture of patronage, nepotism and corruption in the “spoils system” that preceded it. The progressives’ move to formalize procedures and professionalize government through rule-based bureaucracy was a critical innovation in its time. But here in the early 21st century, the very rules that proved so valuable 100 years ago have become an albatross around the neck of public leaders.

If we care about future prosperity and progress, it is clear that the time has come to move to a post-progressive era that values discretion and problem solving rather than bureaucracy.

In the 20th century, where the challenges facing government presented themselves at a slower pace, the time lost to red tape and bureaucracy was necessary to insure accountability.

In the 21st century social, economic and demographic trends create a set of public policy problems that develop much more rapidly than our outdated systems can handle. Our bureaucratic rules, processes and approvals often aggravate the problem or reduce response time, at significant cost.

However, the same technological and social changes that have dramatically altered our world in the past generation make it possible for government to achieve the accountability and professionalism that the Progressive era championed without retaining its cumbersome procedures. We no longer have to choose be-

tween accountability and flexibility, or between slow, procedural decision-making and unfettered discretion by public employees. A new post-progressive approach to government is as possible as it is overdue.⁷

THE LIMITS OF A PROFESSIONALIZED REDISTRIBUTION STRATEGY

Ironically, reforming the rigidity of progressivism in government management is a necessary condition for successfully implementing such progressive policies as narrowing the gap between the rich and poor. Our present challenges at the state and federal level stem not from problems with the goals of progressivism but from the institutions, procedures, and habits we have created to address them. In addition, progressive goals provided needed welfare supports and other assistance to those in need through a redistributive approach begun by progressives and dramatically expanded through New Deal and Great Society policies.

We now see that many of the most effective interventions relate not to mitigating market or personal failures, but rather to providing better opportunities for individuals to become self-reliant, productive citizens. Creating wealth rather than redistributing it has to be our current mantra. Without a sober commitment to reforming current government practices, wealth creation will be too slow to meet our needs, not to mention the needs of our children. Ending the connection between self-aggrandizing interests and the public purse

will go a long way toward reinvigorating the kind of environment that has made America what it is: a place where individual initiative and good ideas attract the capital necessary to generate more wealth, create jobs, and provide greater opportunity for more people. It is hypocritical to claim to care about lower income families while supporting government practices that stunt economic growth and raise the cost of living for ordinary families by making goods far more expensive than they need to be.

“Creating wealth rather than redistributing it has to be our current mantra.”

Because progressive policies, which were enacted to protect the rights of those without a voice, have developed into a professionalized bureaucracy too often removed from meaningful public dialogue and true accountability, they need to be reconstituted according to today’s most urgent needs, such as economic growth at the household level.

In addition, government has sometimes taken on the wrong things for the wrong reasons. It has tended to subsidize a specific sector of the economy (and specific entities within the sector) to achieve a wrongheaded goal. Beyond skewing markets through subsidizing the wrong behaviors, governments have also created rule-based systems that promote risk-averse behaviors among public employees. Coupled with a media culture that is often eager to expose and sensationalize government mismanagement, a bureaucratic culture focused on avoiding mistakes often makes avoiding blame a higher priority than promoting citizen wellbeing. Minimizing risk comes at a

heavy price. According to a McKinsey study:

“Data show that productivity in the public and private sectors rose at roughly the same pace until 1987, when a gap appeared. The private sector’s productivity rose by 1.5 percent annually from 1987 to 1995 and by 3.0 percent annually thereafter. In contrast, our best estimates show that the public sector’s productivity remained almost flat, rising by just 0.4 percent from 1987 to 1994, when the BLS stopped measuring it. No evidence suggests that since then it has experienced the growth spurt enjoyed by the private sector.”⁸

Reforming government does more than pursue an aesthetic ideal of an “empowered citizen” and save money. It provides a sound foundation for broad economic growth for individuals and local communities.

In order to bring progressive-era results into our post-progressive age, we need to directly confront the fundamental problem that prevents lasting reform.

THE FUNDAMENTAL PROBLEM: SPECIAL INTERESTS HIJACKING THE POLICYMAKING CYCLE

At its most basic level, the very problem that worried James Madison now should worry taxpayers about what happens in Madison and other state capitals. Highly organized factions disrupt the policymaking cycle of public institutions. Ideally and constitutionally, American public life is governed by a process in which

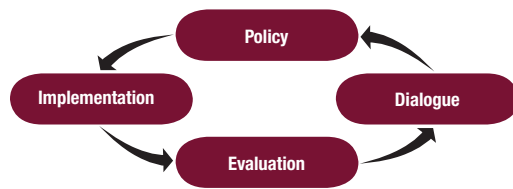
citizens elect qualified representatives who determine the best procedures necessary for promoting the common good, and an executive to ensure the actions necessary for these ideals and rules are put into practice. How all of this works out then determines the quality of the subsequent public debate.

While the United States has enjoyed remarkable constitutional success, it has also experienced the growth of a sophisticated class of special interests that succeed in elevating their interests over those of the general taxpayer. In Wisconsin we see this perhaps most notably in the disjunction between public opinion on education policy and the actual reforms (or lack thereof) that policymakers are implementing.

It took years of legal challenges by the *Milwaukee Journal Sentinel* to get the state government to identify public workers who made more than \$100,000 annually or had their driver’s licenses revoked. Madison fought the request until a court finally forced the state to comply. Achieving transparency in government operations should not be so difficult. The WPRI polling done for this report shows that citizen support in Wisconsin for education policy ideas such as vouchers, merit pay and tax credits for private donations to achievement-based scholarship programs is higher in Wisconsin than in the nation as a whole. The minority that opposes these reforms has presented these changes. On merit pay, for example, 53 percent of Wisconsin’s population supports it, compared to the 33 percent in opposition. Somewhere in the policymaking cycle, the public’s wishes were subsumed to the interests of the minority position despite significant evidence that merit pay improves

student outcomes. The failure to adopt a promising policy that is supported by a majority of Wisconsinites is evidence of the undue influence of a type of “faction” Madison had in mind when he penned Federalist Paper 10.

Ideally, however, creative ideas and high-impact policy should be established through wide public debate and then implemented competently by public institutions and subsequently evaluated. These evaluations in turn inform a policy dialogue among stakeholders, who ensure the replacement of poorly performing policies and programs.



If we consider public pension reform as one example among many, we can see the disruptive affect at each point in the cycle:

Policy. Elected officials involved in difficult bargaining contracts face an interesting trade-off. Union officials often represent more retired workers than active ones, and thus they often bargain earnestly for increases in pensions as much as or more than salaries. In turn, because of the short-term preoccupations and the difficult budgets they face, public officials have a nearly irresistible incentive to increase pension benefits payable by future generations as a trade-off to a more manageable hit on current budgets paid by current taxpayers.

Implementation. Budget officials and pension managers, in an effort to hold down public debate about unfunded liabilities, often assume

growth rates above what is actuarially sound, which in turn produces politically acceptable results but prolongs a dysfunctional (and very expensive) pension situation.

Evaluation. Ideally, policy related to retirement adjusts over time to match the needs (and capabilities) of an aging population. But meaningful relief comes with difficulty even for new employees. Modifying even an unaffordable benefit for future employees produces significant struggle.

Dialogue. Fundamentally, average citizens cannot easily translate their concern into political action. The very political system at their disposal is beset along the way by obstacles erected in large part by the very groups that benefit from the unaffordable results. It is next to impossible for citizens to find the proper forum to express their views about pensions, given the terms of the debate. We do not suggest here that this problem is limited to the union and public officials involved with pensions. Rather it remains indicative of a broader set of issues.

GOVERNMENT THAT WORKS: MORE CHOICE AND ACCOUNTABILITY—FEWER RULES

Charter schools provide us with an example of a publicly funded institution based on a 21st-century, post-progressive approach to governance.

Charter schools are public schools that combine the responsiveness created by enhanced parental choice with a much more relaxed regulatory environment that helps parents and school administrators balance out both the administrative bureaucracy and the

teachers unions. Given a fresh start, charter schools can set policy and use a more individualized, proven curriculum. Because of the need to attract and retain students, charters have an incentive to implement these policies effectively and evaluate their performance over time. Finally, because the interests of teachers and parents are more effectively aligned in the charter model, teachers, students and parents alike have reason to engage in meaningful dialogue about the best ways to adjust policy and practice for improved school performance and student outcomes.

Some might object that comparative studies of student achievement in charter versus public schools call into question this idealization of charter schools. A recent study shows that not all charter schools perform better than public schools—in some respects the charters do seem to perform worse. So why depict charter schools as a model for post-progressive government?

Part of the answer is the upward pressure that charters put on the public schools for performance. In principle, the competition for students and their tuition dollars improves performance in public schools.

More importantly, charter schools work when they better align the interests of the parent as consumer and the schools as producer of the public good.

For a charter school to realize its promise it must elevate the parent and child over the regulatory bureaucracy. The charter has to be

sufficiently independent and flexible that it can tailor its delivery system to the needs of the student and not the demands of the politicians, or unions or bureaucracy.

It is also important to consider that the charter approach is not designed to guarantee success but to increase the chances of success. A charter is at its heart an attempt to create an environment in which transformative change is possible through the kinds of disruptive innovations we have seen work in the enterprise marketplace.

Finally, charter schools create value by creating a strong incentive for parental engagement in their children’s education. This creates an impetus for localized dialogue about policy, curriculum design and the allocation of taxpayer dollars in education.

Charter schools involve citizens (e.g., parents) by granting them real responsibility and accountability in the process of establishing a public institution (a school). Charter schools encourage experimentation freed of red tape and bureaucratic status quo, and yet they do so by heightening the emphasis on results. If they fail, they get shut down. Charter schools are an example of government in which flexibility and greater accountability go hand-in-hand. For this reason, it can be said that they operate more according to market forces than bureaucratic forces.

Charter schools also offer an example of the value of citizen-centered government. Localized responses on a wide range of issues

“Charter schools are an example of government in which flexibility and greater accountability go hand-in-hand.”

from terrorism to healthcare are possible—to a greater degree than most realize. To the extent that we learn to reform government in order to relieve it of the impossible duty progressivism has placed upon it, we can free up public resources to focus on larger, cross-cutting national objectives.

A NEW CHARTER

State and local governments can learn from the concept of a charter in the educational arena and consider establishing newly chartered governments that better align the interests of public services with the consumers of those services. “Chartered”

government involves situating citizen decision-making and oversight at the heart of government operations—a more robust notion than more familiar ideas about “citizen engagement” or “citizen-centric government.” It also involves reforming governing practices so that public employees are freed up to innovate and be held accountable for results rather than whether they followed the established rules. And it naturally involves greater levels of transparency and accountability and an improved process of legislative oversight.

In Indianapolis we emulated this model by establishing charter welfare agencies. These agencies essentially worked through community-based centers with contracts from multiple state and city agencies that allowed them to configure support services according to citizen input and involvement, and then be held re-



sponsible for results. This helped address some enduring problems that previously had simply been taken for granted. For example, the state child protective services agency had become rule-bound and insufficiently connected to the community, but no one expected it to be any different. Our approach encouraged the state to enter into a charter-like contract with the community group to provide services to children

in need, which fundamentally altered the role of the citizen in the delivery of services and made government accountable to the community in ways previously unknown.

If we hope to reform government more broadly than

discrete reforms at this or that agency, we need to recognize that the only path to success is to disrupt the elements of the policymaking cycle described above. A “charter” approach to government would produce a more responsive government and better utilize and guide the market forces that typically produce better quality.

A charter government would achieve this by fundamentally altering the way in which accountability and citizen oversight are institutionalized.

Competition: Government must be subjected to a greater extent to market forces in order to help escape the power of the progressive-era bureaucracy and create incentives for both marginal improvements and disruptive innovations.

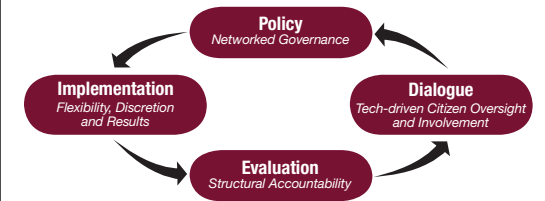
Government reacting to market forces will become more entrepreneurial in nature. A government with more initiative can predict problems, anticipate solutions and attack fundamental social ills.

Success would be determined by results, and public employees would be rewarded or reassigned (if not fired) based on performance. Vendors could become strategic partners and assessed by results, not inputs. Privileges accruing to politically favored providers would be ended. Savings would be returned to taxpayers or reprogrammed to another public purpose.

Citizen-centric: Government structures its services today for its own convenience, organizing itself around often rigid verticals that complicate transacting business with government. Citizens should be able to combine choice in where they receive services with transparent information about quality, and a delivery system aligned around their interests and convenience. A charter government would elevate the policy and operational interests of its consumers, whether they be taxpayers in general or teachers or business owners in particular. A charter government would ensure that schools, public safety, infrastructure, housing agencies and healthcare services operate in a way that maximizes the productivity and benefit of individuals, businesses, and families.

These two principles drive charter government to pursue policies and methods that can truly be transformative. In order for these key characteristics to become a reality, public leaders need to enact basic structural reforms that change the nature of decision-making in public institutions, alter how public agencies work

with private entities, reorder incentives for public employees and beneficiaries of services, and streamline the regulatory and operational environments of the most important public agencies.



The charter approach to government would thus exploit the incentives of market competition and the pressure of citizens’ demand for better government performance. As a result, it would improve the policy process described above in (but not limited to) the following ways:

Policy

In the policymaking process, the charter model would incentivize legislative and executive officials to think outside the traditional, unproductive roles of government and established non-profits in order to create the institutional arrangements best suited to produce public goods. In short, public policy would be oriented toward the creation of partnerships between government and other sectors whenever necessary and as easily as possible.

Networked Governance. Since the role of government is to create public value, not public activity, government leaders should organize service delivery through networks that provide value rather than exclusively through vertical institutions. Policy stretches across government agencies and levels of government as well as across sectors. For too long policy

development looked narrowly on how policy development could be delivered. For example, in looking at schools, Milton Friedman argues that all schools open to the public are public schools and that government-run schools are actually only part of the solution. In a recent conversation in New York about public transit, it became clear to me that the others in the conversation limited their definition of public transit to that operated by the MTA's buses and subways. Why not enhance the public's mobility by finding creative ways to leverage increased access to taxis and privately run group van service, which represent a very significant component of public transit service?

Policy development needs to explicitly include these strategic partners in its approach, and a charter approach would begin with the assumption that government must allocate resources in a way that takes advantage of a network of providers rather than perpetuating the government's monopoly on the delivery of public services.

Implementation

The charter approach to government can also increase the ability of public delivery systems to execute innovative policy ideas for better results. Far too often, good policies are repealed and innovative ideas are abandoned because government institutions simply fail to execute the policy effectively and efficiently. Government that finds itself situated in a competitive, citizen-centered environment will be more likely to achieve results.

Flexibility, Discretion and Results. In exchange for heightened accountability, public employees and their network partners would be given flexibility in determining solutions. The

allocation of public resources would follow a model of budget allocation in private enterprise—namely, it would proceed according to clear rules, but with maximum flexibility for managers to change course and customize responses rather than apply the same formula to all scenarios. This responsiveness to the demands of the public marketplace will help dramatically improve citizens' public trust and confidence in government as an institution relevant to their daily lives.

As noted above, in a paper-based system governments developed a tight set of rules to manage the conduct of its line employees and nonprofit vendors. In a digital workplace we can manage those employees whose performance does not meet a standard of excellence while simultaneously returning discretion to the front lines through sophisticated performance and monitoring system.

For example, officials should be able in real time to watch the data collection and decision-making of every child welfare worker, who will input all information into a wireless device and on the same device receive recommended interventions driven by sophisticated algorithms. Thus, the charter approach to government encourages the use of sophisticated management tools to clear the way for excellence in government execution.

Evaluation

Building on these new tools, a charter approach to government would provide an enhanced framework for evaluating government policy and projects. Chartered government would by definition consist of impermanent enterprises subject to constant evaluation, improvement and, if necessary, replacement.

Just as bankruptcy laws provide for the orderly dissolution of a failed enterprise, a charter government would have clear rules for the termination of failing public agencies and initiatives. Because a charter government would operate with clear standards of accountability, the ability to adapt to changing needs and circumstances would be the norm rather than the exception.

Structural Accountability. In this sense, charter government would provide a new approach to holding government accountable for results and performance. Since government processes tend to accrete over time, mechanisms need to be built into a new charter that both forces a review of existing structures and a process for regular reviews going forward.

One approach would be to build on the lessons of the largely successful Congressional Base Realignment and Closure Commission (BRAC), utilized by the United States Department of Defense and Congress to close excess military installations. Congress must accept or reject the BRAC recommendations in their entirety, thus sharply reducing the influence of parochialism.

One way states have mimicked this success has been the establishment of “sunset” legislation, which forces the regular re-evaluation of government programs and institutions. Nearly half of all states have established a process for regularly assessing and “sunseting” state programs. Since 1982, for example, the Texas Sunset Commission, a branch of the Texas legislature, has abolished more than 58 agencies and consolidated another dozen or more, saving the state over \$780 million. Moreover, thanks to the permanent existence of a powerful legislative sunset committee, the bulk

of the commission's recommendations have become law.

Key elements would include a regular review of each agency, supported by a professional staff of a powerful legislative committee that focuses on efficiency and results, not public activities. Additional accountability measures involve the use of clear and transparent performance data. Information on performance-based budgeting, strategic planning, customer surveys and plain-language budgets all help involve the average citizen in the battle for the economic health of their state.

Dialogue

The last phase in this model of the policy-making cycle is that of citizen-government dialogue. Overcoming the influence of special interests will require explicit steps to create the means for everyday citizens to gain access to information on government performance. Not only this, they also need the means to make their voices heard. To be sure, citizen engagement is crucial at all stages of the cycle, but under a charter model, citizens need to be positioned to influence the formulation of new policy based on the results of ongoing evaluation. If they are not involved at this critical stage, it will be difficult to identify the kinds of disruptive innovations needed for continuous improvement. Without this protection, the odds that narrow interests will once again start to gain a foothold on the policy process dramatically increase.

Tech-Driven Citizen Oversight and Involvement. In the same way that technology reinvents the relationship between management and accountability in public policy, high-tech tools can reinvent the way individuals and

citizen watchdog groups participate in the policymaking and political process. In the past, charrettes have been used to involve community representatives on issues of importance where residents, often in matters of design and zoning, have an opportunity to weigh costs, suggest alternatives, and exercise real veto authority. Such well structured exercises have allowed governments to ensure that complex issues are resolved in an orderly way that approximates the general interest. A charter government could build on this model by moving beyond face-to-face meetings and including a variety of social networking mechanisms as well.

“Governments must use new means to create this dialogue involving blogs, electronic transparency and online public forums/town meetings to offer input on public policy.”

Meaningful reform of issues as fundamental as entitlement reform, pensions for public workers and tax policy require a broader democratic participation involving new technology tools coupled with a highly transparent and elevated public debate.

Governments must use new means to create this dialogue involving blogs, electronic transparency and online public forums/town meetings to offer input on public policy. For example, Texas Gov. Rick Perry posts office expenses online to allow taxpayers to hold officials accountable. In leading cities, 311 systems have redefined the access citizens have to government information and transformed the role of the individual in providing real-time information on community needs to public

servants. Beyond reporting problems to public workers, these systems, combined with social networking tools, also have the potential to provide groups of interested citizens a meaningful role in solving those problems.

Real-life examples such as this and others show us that pieces of a charter government have been put in place—but no state has implemented a full package of these new ideas in a way that truly reforms and redefines public policy. Were a state such as Wisconsin able to institutionalize charters for various agencies along these lines, we would see a strong move to a new era of accountability and progress.

CHARTER GOVERNMENT: LIFE AFTER PROGRESSIVISM

The application of charter principles to government beyond charter schools is hardly unprecedented. The insight was brought to light at least as early as when Jack Kemp proposed Enterprise Zones that utilized tax credits instead of reduced formal regulation and oversight in exchange for an expectation of improved results. And on a more dramatic scale, this notion was recently tested—with great success—in a neighboring state.

In 2003, Iowa Gov. Tom Vilsack tested a form of charter government when he launched his Charter Agencies Initiative, with help from lawmakers, creative managers like Jim Chrisinger and Minnesota’s Public Strategies Group.

The legislature granted new charters to six of the state’s major governmental agencies, which allowed them more flexibility in return for a commitment to achieving savings and better results. They were thus given the latitude to experiment with new revenue models, cost savings and operational efficiencies. To compensate for this enhanced expectation of innovative activity, the Charter Agencies could retain a portion of the budget savings they realized for discretionary use and were exempted from other aspects of the state budget process—including time-consuming budget negotiations.

The Charter Agencies committed to saving the state at least \$20 million per year. This was, of course, a major risk for agency directors more used to the traditional process of ever-increasing budgets divorced from performance.

As it turned out, the Charter Agencies saved closer to \$50 million a year. The Department of Natural Resources reduced the average turnaround time for permit applications from 187 days to 30 days. The Department of Corrections reduced the probation failure rate by 17 percent. The Veterans Home, a long-term-care facility, reduced the fraction of patients experiencing moderate to severe pain by half. The Department of Revenue increased the number of personal income tax filings completed within 45 days from 75 percent to 94 percent.

By creating a *structural change* this charter concept creates a virtuous cycle that basi-

cally says: “If you perform you can have more discretion. And the more discretion you have, the better you can perform.” This approach actually reverses 50 years of ineffective, rules-based government that distrusted its public employees so much that it brought integrity by removing discretion.

Based on its legacy of innovation and good government, Wisconsin could take the national lead by modernizing its governance systems to both regain control of government and in turn make it more accountable, affordable and effective.



A CHARTER AGENDA FOR WISCONSIN

So how could Wisconsin begin to formulate a charter approach to government? As mentioned above, my work with the Innovations in American Government program has been aimed at encouraging the replication, adaptation and application of innovative policies. Iowa Charter Agencies received this award in 2005, so seeing this approach applied in other jurisdictions is part of that institution’s mission.

Iowa never fully institutionalized its reforms because its authorizing legislation was allowed to lapse. While the spirit of management reform has been preserved somewhat in Iowa, the legislature did not extend the charter in order to implement the fundamental reforms discussed here.

Beyond the application of the charter model to individual agencies and departments, there

are ways to build the concept into cross-cutting, government-wide policy. Five specific suggestions follow, which could serve as the foundation for a Wisconsin charter reform:

1. Build on Wisconsin’s success and legacy as a leader in the charter school movement.

As noted above, the model works best when the chartered institution operates as independently as possible, unencumbered by the stifling rules and bureaucratic restrictions that cause public-sector dysfunction in the first place. Charter reforms should truly form the basis for school-based autonomy and flexibility.

However, charter schools in Wisconsin suffer from a common problem that occurs when the agency of government that delivers a service also decides on the rules that control its competition. In Wisconsin local school districts, by and large, both operate traditional schools and decide on who gets a charter and under what rules. In this scenario, established interests, whether in the bureaucracy or union, can place a drag on the ability of charters to respond to market demands.

The result is that our charter schools in many cases are not performing as well as they could—and they are not innovating as much as they should. This is a serious problem because when charter school leaders succeed in maintaining their autonomy, they are often the highest-performing schools in their districts.

Wisconsin might take a few cues from Colorado, which has created statewide charter school entities. Such charter operators would not take away the ability of local school districts to establish charters. Rather, they function as alternate authorities that promote a similar performance culture statewide. They

also guarantee that every community in the state can start a charter if it so wishes. Indiana as well allows both the mayor of Indianapolis and certain state universities to charter public schools.

Without policy that supports charter school autonomy and accountability, the promise of the charter model of government cannot be fulfilled, which ultimately means that students are also denied the kind of education their parents’ tax dollars *should* be providing.

2. Implement the Iowa charter model comprehensively in agencies strategically important to the state’s future growth and prosperity. The agencies and departments that participated in the Iowa program demonstrate that large bureaucratic institutions can recalibrate quickly and produce better outcomes and substantial savings for taxpayers. Broad authority and clear accountability metrics can produce transformative productivity increases by bringing out the best in state employees, managers and department heads.

For example, the Department of Commerce would benefit from such an approach. “Be Bold Wisconsin,”¹¹ a recent study by Deloitte for Competitiveness Wisconsin, Inc. makes a variety of recommendations for the state—including a series of reforms for the Department of Commerce that closely follows the notion of charter government.

“Be Bold” recommends significantly revamping the department so that its business development and retention functions are transferred to a new body governed by an independent board appointed by the governor. This independence could free the economic development tasks of the agency from many

of the state’s existing restrictions with regard to compensation, personnel and procurement. In addition to helping with talent attraction and turnover reduction for the agency, a new freedom and focus on an entrepreneurial mission could ease the critical process of aligning the state’s economic development strategy with overarching education, workforce development and other investments.

3. Introduce all departments and agencies to the benefits of charter government.

Though other agencies, like Commerce, may be ready for a wholesale transition to the charter model, not all managers will have the appetite or agency culture necessary to fully implement a charter. In some cases, a legitimate concern for risk management or public safety could be reason to introduce the concept incrementally. Nonetheless, a charter government should attempt to introduce as much of the model as possible in every agency.

Short of a full-scale agency “charterization,” an incentive program could be put in place for allowing all agencies to identify opportunities for streamlining government processes that save money and improve customer service. A recent example of the impact of this approach can be found in Wisconsin’s 2003 Job Creation Act, which dramatically simplified the permitting process for water regulations. The single-permit approach for water-related aspects of a construction process

preserves public safety while streamlining government operations and, perhaps most importantly, reducing the time-consuming and costly process of multiple applications and approvals by private developers. This kind of operational efficiency enhances economic activity by saving taxpayer dollars and encouraging additional activity in the private economy.

If all agencies were simply granted an authority to submit proposals for process streamlining to a state-level review board—with the promise that the agency could keep most of the operational savings for discretionary use—creative ideas would doubtless emerge from across state government. This type of approach would create efficiencies in everything from public health and welfare agencies to the statewide university system, which is itself encumbered by too many rules and processes that slow its ability to adapt to the 21st century.

4. Build on the legacy of welfare reform to tackle today’s big challenges.

In a critical sense, Wisconsin’s legacy in leading welfare reform is a prime example of the concept of charter government in action. By seeking enhanced freedom in exchange for the ability to pursue creative, results-based policy alternatives, the state led the way to a national policy movement that has moved millions of American families and communities to a greater level of prosperity and personal free-



dom. Wisconsin-style welfare reform became a major force in the overall urban renewal our country enjoyed in the 1990s.

Wisconsin could tackle other issues of crucial national importance, such as reforms to federal programs asking for waivers to implement new approaches to HeadStart, Unemployment Compensation, Medicaid and other tightly controlled federal programs that impose unnecessary restrictions on state creativity. In this way, Wisconsin could become a seedbed of innovation and new policy for the nation as a whole.

CONCLUSION: CHANGE IS POSSIBLE, PLAY TO YOUR STRENGTHS

What will help create an environment amenable to the kind of reform for which this essay calls? How can a state take steps toward a charter government? Despite their present fragile condition, state governments like Wisconsin's have some built-in advantages on which to build to move from the progressive to the charter era.

State competition. For starters, the United States is characterized by the important constitutional reality that states place an implicit check on each other by continuously competing for capital, jobs, educational attainment and overall quality of life enhancements. There is a reason Texas has added 4 million people in

the past decade while California has been losing citizens at a rate of 100,000 per year. Owing to its favorable tax structure and regulatory environment, Texas is home to America's top five job-creating cities, while California's in-

come tax rate—the second highest in the nation—and its bloated public-sector workforce and regulatory regime are driving away residents as the state takes on \$25 million in debt per day.¹² The main lesson to be drawn from the dramatic differences between California and Texas is that policy matters—a lot. Government reform, as proposed in this article, not only achieves benefits such as better services at lower

cost and better public accountability, it also creates an attractive environment for inward investment and migration. By reducing waste through clear performance standards and reducing the barriers to business and educational success, a state can establish itself as a destination for aspiring individuals and enterprises.

Convener and referee. If government sets rules with a clear set of goals and in a fair and transparent method, it can not only change how it performs but produce a sound platform for growth. A post-progressive, charter-based government is not anti-rules or anarchic. Rather, it would act more as a referee of the public game.

The current financial crisis starkly demon-

strates that traditional regulatory schemes do not work to regulate new and complex private markets. At the same time, government red tape sucks nearly a trillion dollars out of the economy and, in many cases, cripples the creativity of both government workers and their private-sector partners.

For these reasons we must regulate better—more effectively than the costly command-and-control, inspection-and-punishment model that we have accepted as the norm today. Targeted inspections based on risk analysis—namely, focusing inspections on areas with the highest risk—can help identify potential problems sooner and impose a lighter burden. A state can open up its economy by reviewing its regulations to ensure that they clearly accomplish more in health and safety than the costs they impose. Regulations that cannot demonstrably survive routine cost-benefit analyses need to be eliminated. Governments also have a unique power to assemble, convene, and bring people together to focus on common public issues. While they typically do this through the creation of committees, commissions, and task forces, state governments can use their convening authority to change the nature of governance from a rule-based structure to a network-based strategy, as suggested earlier. While efforts across the country to engage citizens on budget matters have often been met with a tepid response, governments can learn from additional efforts to use web and automated phone survey tools to create regular feedback loops. Government occupies a unique role as convener and can utilize that role in new and flexible ways to secure input and produce results.

Public leadership. Creating a post-progressive, charter-based government requires effective and enlightened leadership. A charter government would need leaders who can articulate the value that public innovation will produce, enlist broad cross-sections of the citizenry, and, almost paradoxically, heighten the public's expectation for improved performance in a way that makes public leadership more challenging.

In the end, all reforms depend on the quality of citizen involvement and public leadership. Wisconsin has historically been strong in both these areas. Engaged leaders, facing today's crises, will find personal and structural ways to advance the general interest of the citizen taxpayer over the special interests, and in turn, through newly resilient governance structures, produce a better foundation for economic growth. And judging from the findings of the WPRI poll, state leaders who make these bold changes will find strong support from their constituents.

Endnotes

¹ http://www.realclearpolitics.com/epolls/other/direction_of_country-902.html.

² The WPRI poll done for this project shows that more than half, 58 percent, of respondents in Wisconsin believe the state is generally on the wrong track, while only 34 percent believe it is on the right track. And 43 percent would grade the state government's job as "only fair," while a quarter of all respondents, 25 percent, graded it "poor."

³ <http://www.heritage.org/Research/Reports/2008/03/A-Guide-to-Fixing-Social-Security-Medicare-and-Medicaid>.

⁴ http://budgetreform.org/sites/default/files/Red_Ink_Rising.pdf.

⁵ <http://www.forbes.com/forbes/2010/0208/debt-recession-worldwide-finances-global-debt-bomb.html>.

⁶ <http://www.jsonline.com/news/opinion/96682334.html>. Quote from Lightbourn op-ed: "Our total state debt rose by 170% in the last decade, exploding from \$3.5 billion to \$9.4 billion. Clearly, the governor and the Legislature

“Despite their present fragile condition, state governments like Wisconsin’s have some built-in advantages on which to build to move from the progressive to the charter era.”

responded to the recessions that bookended the decade by borrowing money to give the appearance of supporting an unsupported level of spending.”

⁷ For more on this, see “Fewer Rules, More Results,” Better, Faster, Cheaper, July 21, 2010. <http://www.governing.com/blogs/bfc/post-progressive-government-fewer-rules-more-results.html>.

⁸ https://www.mckinseyquarterly.com/Boosting_government_productivity_1514 and <http://www.nber.org/papers/w15323.pdf>.

⁹ http://www.mathematica-mpr.com/Newsroom/Releases/2010/Charterschool_6_10.asp.

¹⁰ <http://www.sunset.state.tx.us/faq.htm>.

¹¹ <http://www.competitivewi.com/Domains/competitivewi/Documents/Wisconsin%20Competitiveness%20Study.pdf>.

¹² <http://www.trends-magazine.com/trend.php/Trend/2047/Category/55> and <http://www.newgeography.com/content/001211-the-essence-and-future-texas-vs-california>.

SUSTAINING A GREAT PUBLIC UNIVERSITY

— BY MIKE KNETTER AND GWEN EUDEY —

Wisconsin School of Business Dean Mike Knetter and University of Wisconsin-Madison economist Gwen Eudey advocate regulatory reforms that will increase the value Wisconsin residents can realize from UW-Madison.

INTRODUCTION AND SUMMARY.

Wisconsin faces a conundrum: Just when the state and its citizens need a research university most to attract outside funding, fuel job growth, equip individuals to compete in a more knowledge-intensive labor market, and help spawn our own technology-intensive companies—the state is finding it harder to fund the university. There is, however, a logical solution. Precisely because research universities are able to create much more economic value in today’s economy, they have the potential to be more self-reliant. This essay describes the value of a great research university to the state and the regulatory changes needed to enable the growth of that asset without imposing a greater burden on taxpayers.

The ability of the University of Wisconsin-Madison to maximize its contribution to the state’s economy will require a new partnership between the university, the state, students, and alumni. The state and university will need to reduce regulations and increase flexibility in order to reduce costs and improve quality and

efficiency. UW-Madison students and alumni, who, because of their skills and education, are among the main beneficiaries of the recent economic trends, will need to assume greater responsibility for the operating costs in the future through higher tuition and philanthropy. UW-Madison will need greater autonomy to set and retain tuition and manage enrollment, while being held accountable for preserving the core values of educational and research quality, access and affordability that are vital to a public university.

Unfortunately, the clock is ticking. Other states facing similar challenges have moved more quickly down the path of reform, and in several cases, their universities are closing ground on UW-Madison. This will eventually erode UW-Madison’s competitive position and thus its ability to attract out-of-state talent and resources that add to regional economic growth. Aggressive action is needed to give the university the flexibility needed to help itself and, in the process, help the state.

The modern public university context and the need for reform

Both technological change and globalization have, over the last several decades, dramatically altered the economic fortunes of industries, regions, and individuals in certain predictable ways. The transformation toward technology-intensive industries has been evidenced by rapid innovation and product development in nearly every aspect of life. Over the last several decades, China, India, the countries of Central and Eastern Europe, and many others have become part of the global trading system. In the process they have greatly increased the competitive environment in many sectors where developed economies once led the market—particularly in manufacturing. Prices, profits, wages, and employment in U.S. manufacturing have been under pressure as a result of a broader, global field of competitors.

The high-tech sector is where the U.S. economy enjoys its greatest competitive advantage and is thus where capital and labor returns have been highest. In recent decades the earnings of college graduates have risen by over 40 percentage points relative to those workers without a college degree. Not surprisingly, regions with a high density of both technology businesses and college graduates are doing relatively well. Sadly, Wisconsin has struggled to retain college graduates, falling further below the national average in per capita income.

“A world-class research university is one of the best attractors for technology-intensive businesses to launch or locate in Wisconsin.”

UW-Madison already plays a large, direct role in helping to generate high-wage jobs related to its academic research. As the knowledge economy has grown in importance, so too have research expenditures on major university campuses. National Science Foundation rankings regularly find UW-Madison in the top three of all U.S. universities in total research expenditures. While Wisconsin (ranked third) and Minnesota (ranked 14th) are both known as great research universities, with annual expenditures over \$800 million per year, Wisconsin exceeded Minnesota by over \$200 million in 2007. Wisconsin exceeded Purdue by over \$400 million! The

vast majority of these expenditures come from federal grants flowing into the state. Clearly, there are large economic rewards to having a top position as a research university.

A research enterprise of this magnitude is itself a great producer of technology- and human-capital-intensive jobs, and it also indirectly creates a ready supply of people who can transition into technology-related startups. The Initiative for Studies in Transformational Enterprises (INSITE), housed in the Wisconsin School of Business, records over 280 start-ups whose founders had a direct relationship with UW-Madison.¹ A world-class research university is one of the best attractors for technology-intensive businesses to launch or locate in Wisconsin.

World-class research universities also attract other important sources of outside revenue.

Out-of-state tuition revenue at UW-Madison is approaching \$150 million per year. Private gift funds typically exceed that amount, and a significant fraction come from out-of-state alumni and friends. Patent and license revenue that accrues to support the university is of a comparable magnitude. All told, UW-Madison easily attracts over \$1 billion per year in financial resources from outside Wisconsin that is spent locally to maintain the quality and scale of the university and enrich the state in the process.

These developments have clearly raised the economic stakes for research universities and the states that house them. They have also very much affected the environment for higher education.

As the returns to outstanding education and research have increased, prices have followed suit, and students have become more informed consumers of education—comparing programs, placement records, salaries upon completion of a degree, affiliations with industry, and teaching quality, across colleges and universities all over the country and, increasingly, the world.

Just as there will be winners in the market for higher education, so too will there be losers. Colleges and universities that are not strongly incentivized to improve their research or educational offerings are less likely to attract top-notch students, the best faculty, or the most rewarding relationships with high-quality external partners. More than ever, it is critical for universities to understand and respond to

their external market forces. Consequently, it is important for UW-Madison to be empowered to make the key strategic decisions needed on a timely basis to compete in the market for higher education.

UW-Madison has a historical position of preeminence in higher education, thanks to a history of strong support by the state and, more

recently, increased tuition and gift funds. But its regulatory and financial relationship with the state has changed remarkably little as its financial foundation has shifted and the competitive environment has evolved. Certain aspects of the

regulatory environment prevent the university from easily capturing the benefits of many cost-saving and revenue-enhancing innovations. In other words, as other universities have had the ability to be more nimble in their pursuit of opportunities, UW-Madison has been hamstrung by a regulatory and compliance system in need of reform.

State agencies are regulated for a variety of reasons, but the most important are probably accountability for performance and cost containment. The motivation for performance accountability is obvious for any state entity. The motivation for cost-containment regulation is that most state agencies do not compete in provision of their services and thus are not naturally subject to competitive forces to contain cost. For example, the Wisconsin DNR will not lose its “market” to the Illinois DNR if it is inefficient in delivering good service out-



comes. Judicious use of public funds requires cost-containment regulation in this situation.

The modern research university context is very different. Public colleges and universities provide services to their states, and thus there is a clear role for accountability measures, particularly with regard to quality and access. Yet public research universities are quite un-

like other state agencies for, in addition to their provision of a public good, great research universities are also subject to intense national and international competition for faculty, staff, students, research funding, private gifts, etc. These competitive forces require universities to be nimble and innovative in executing their strategies while also showing great care in managing resources and controlling costs. Failure to do so puts them at a huge disadvantage in attracting research grants, patent and license revenues, out-of-state students, and other important sources of revenue.

Currently, UW-Madison must in effect serve two inherently different masters—state regulations and global competitive forces; this puts the university at a great disadvantage compared to other institutions that are free of the same degree of state regulation. By subjecting UW-Madison to all of the cost-containment regulation on generating outside funding, procurement, construction, and human resources that states impose on other agencies, we handicap the university’s quest to maintain excellence.

Because of its public good aspects and ability to be a resource attractor for the state, a disadvantage to UW-Madison is a disadvantage to the state. If state government restricts UW-Madison’s ability to respond to market forces and opportunities to create value for society, it will restrict the institution’s quality, scale, and positive impact on the Wisconsin economy.

The need for reform of the outdated regulations is greater than ever, and a two-pronged approach is needed to fix it. First, UW-Madison should be given greater flexibility in management of its resources and revenues. Second, it should have greater freedom to set tuition for its various programs. These two measures will provide the incentive needed for

UW-Madison to minimize unnecessary costs, improve the range of services offered to both business and its student body, and to maintain its quality. And perhaps most importantly to the state in difficult economic times, this will reduce future reliance on state funding.

It would surprise no one to learn that faculty and staff and students themselves are attracted to institutions that demonstrate that they are exciting hubs of intellectual activity, creative learning, growth, and economic advancement. Failure to keep up could lead to decline, if our inflexibility leads to a brain-drain of leading faculty, staff, and students. These dynamics between the students, faculty, and institutions feed on one another; the trick is to achieve the high-quality equilibrium. Giving the university

“Public colleges and universities provide services to their states, and thus there is a clear role for accountability measures, particularly with regard to quality and access.”

more flexibility will strengthen the incentives to maintain the high quality we have built over decades. At over \$1 billion per year in outside resources, the benefits of keeping the high-quality equilibrium are high for the state.

The Madison Initiative for Undergraduates (MIU), adopted for the 2009-2010 year, was clearly a response to new state fiscal realities and external market conditions and may prove with hindsight to be the beginning of reform for Wisconsin. The MIU imposed a tuition surcharge for students attending UW-Madison, with an offset for students eligible for financial aid. The MIU surcharge revenue was then managed by the UW-Madison in order to pay for faculty, undergraduate advisers, and student recruitment. The quid pro quo was a private pool of aid to offset the higher tuition for students with demonstrated need. Student leaders overwhelmingly supported the plan to raise tuition. They understood the link between revenue, quality, and long-term opportunity. Students chose the high-quality equilibrium, even though it meant higher cost for them.

The progress of reform in other states

The need for reform is not unique to Wisconsin and UW-Madison—other states have made innovative and sweeping changes to better align their systems of higher education with the changing structure of the economy. In some cases, flagship campuses within a system have broken away to become more autonomous and have adopted financial systems that are more flexible with respect to setting and retaining tuition. In some cases that takes place on an institution-wide basis, and in others, only within the professional schools. Other states are making progress, and Wisconsin is very likely

to be left behind if we do not make similar, or ideally even better, reforms of our own.

Virginia

The most studied reforms have taken place in Virginia, through the Restructured Higher Education Financial and Administrative Operations Act of 2005 (Higher Education Restructuring Act). Public colleges and universities that meet annual performance targets are granted autonomy in management of capital projects, leases of property, information technology, procurement, human resources, financial operations and management, and the determination of salaries, tuition, and fees.

Cyclical fluctuations in state tax collection had produced a revenue stream that was too uneven to finance the improvements in quality and accessibility demanded by the state legislature of Virginia’s public colleges and universities.

Virginia’s Higher Education Restructuring Act demands greater accountability of public colleges and institutions, in exchange for a more stable revenue stream, but recognizes through the tier system that autonomy is not possible for all of its public institutions and that different models apply in different cases. Virginia Tech, the College of William and Mary, the University of Virginia, and Virginia Commonwealth University all have tier-three status. Moreover, the University of Virginia’s Darden School of Business was privatized the year previous to the Restructuring Act (2004). The School of Business is allowed to raise funds, retain tuition revenues, and hire faculty. In exchange it forgoes its share of state funding and pays central campus 10% of its expenditures for shared services.

Michigan

Public colleges and universities in Michigan are autonomous institutions, and have managed their own finances with modest state oversight since the late 19th century. The University of Michigan-Ann Arbor is the flagship university in that state, and it uses its reputation to full advantage, charging among the highest out-of-state tuition of any public university nationwide, and retaining those export revenues for its own development. One such development is the University Research Consortium between Michigan State University, Wayne State University, and the University of Michigan, which coordinates and leverages collective ties to business, marketing of innovations and new technologies, and programs designed to attract business to the state, including creation of technology parks, business incubators, and educational programs designed to reduce the information costs to foreign firms interested in producing within the state.

Colorado

In 2004 the Colorado legislature enacted enterprise-status legislation allowing approved campuses exemption from state government spending restrictions as well as exemption from restrictions on the abilities of campuses to raise revenue. The University of Colorado, for example, has not only greater authority over setting tuition but is also absolved from traditional restrictions on out-of-state and foreign enrollment shares, thus increasing export revenue to the state and general revenues to the university. At the same time, disbursement of funds to each public college or university depends in part on the ability of each school to attract in-state admissions, thus insuring the accessibility of the university to local residents. The University of Colorado at Boulder

has developed a model to attain complete self-sufficiency through its “Flagship 2030” campaign.

South Carolina

In 2002 the governor offered higher education institutions the option to opt out of the state system and become separate 501C institutions. In exchange, the state would guarantee the state base appropriation for a fixed term of years, after which the institutions would receive no state funding but would continue to provide preferential tuition rates for resident students.

Oregon

In 2003 the state released public universities from many of the state’s procurement and administrative requirements in exchange for meeting certain enrollment and performance targets. The state guaranteed six years of incremental funding growth and put limits on increases in tuition and fees. More recently, the University of Oregon president has proposed a public-private bond flotation that would serve as an endowment for the university and provide a more certain revenue stream over the next three decades; the public contribution would consist of an up-front commitment of the annual allocation for the next 30 years, matched dollar-for-dollar by private contributions. The state would benefit from a lower, fixed-rate, commitment to the University of Oregon, and the university would benefit from a more certain revenue stream and greater flexibility in the management of its resources.

LESSONS FOR WISCONSIN

Reforms have proceeded in other states for the very same reasons they are needed in Wisconsin. Among the common elements of reform are:

- Differential regulatory treatment of flagship research universities that generate substantial outside resources but face global competition as a result.
- Clear standards measuring both quality and accessibility that must be met by public colleges and universities wanting increased autonomy.
- Less demand for future state-level support for institutions granted greater autonomy, freeing scarce resources for other state needs.
- Recognition that public-private partnerships between the university and industry encourage innovation and growth for both.
- Greater autonomy to set and retain tuition across the institution and/or for professional schools that produce graduates with above-average earning potential.
- An upper limit on tuition and fee increases and provision of financial aid in order to ensure accessibility.

CONCLUSION

The relationship between the state and the UW-Madison is ripe for change. It meets many if not all of the conditions that have driven change elsewhere.²

Global economic forces have created a challenging fiscal environment for the state. These same forces have made major research universities more valuable to their states—e.g., UW-Madison attracts over \$1 billion per year in resources from outside the state. The increased value created by research universities has also increased competition in higher education, driving up costs and putting a premium on flexibility to adapt to the environment. The state faces a conundrum: Just when it needs a great research university most, it is finding

it difficult to provide the growth in revenues needed to sustain it.

This essay proposes a solution to this dilemma. UW-Madison is a great export engine and net job creator for the state. It can help Wisconsin gain a greater presence in technology-intensive jobs and companies, and the opportunity exists to boost quality without adding to taxpayer burden. UW-Madison is capable of shouldering more of the future revenue burden because of its extraordinary quality and international reputation in education and research, the economic benefit its degrees confer to graduates, and the willingness and ability of alumni to give back to the institution. Outdated and unnecessary regulations on costs and revenues have limited growth and hindered quality and efficiency of the university. Reducing regulations on cost, increasing flexibility in generation and use of revenue, while maintaining standards for performance accountability, can enable UW-Madison to achieve greater scale and quality and enrich the state economy in a more affordable way for state taxpayers.

The value of research universities around the nation and the world is now widely appreciated. Wisconsin risks losing out to other states and schools that are adjusting more quickly to the changes in the economy. It is clearly time for bold action.

Endnotes

¹ In addition to creating startups, current UW-Madison corporate partnerships include companies like Harley-Davidson, Briggs & Stratton, Kohler, Mercury-Marine, Cummins, Caterpillar, and many others.

² While this essay is specific to the opportunity for UW-Madison, other public universities are affected by their own regulatory and external market factors and might seek similar kinds of flexibility.

LESSONS IN BUDGETING: LISTENING TO OUR FOUNDERS

— BY GEORGE LIGHTBOURN AND CHRISTIAN SCHNEIDER —

WPRI President George Lightbourn and Senior Fellow Christian Schneider show us the wrong turns made in managing the state's finances and how to get back to what Wisconsin's founding fathers envisioned over 150 years ago...a treasury built on common sense rather than magic.

On October 5, 1846, 125 delegates descended upon Madison to take part in Wisconsin's first constitutional convention. Statehood was still two years off, but in the next few weeks the delegates would debate a number of controversial proposals for potential inclusion in the state's founding document.

In the first draft of the constitution, women weren't allowed to own property outside their husband's name. The conventioners couldn't decide on voting rights for blacks, so they punted the question to a public referendum. The boundaries of the state hadn't even been set yet—delegate William Holcomb unsuccessfully sought to have the western portion of the territory split off into the “state of Superior.” It would remain one state...from the Mississippi to Lake Michigan and from Lake Superior to the Illinois border.

There were, however, some provisions that were not at all controversial, including a strict, almost puritanical provision for how state government would manage its finances. On

this everyone seemed to be in agreement, and that fiscal responsibility seeped into the ordinary lives of Wisconsinites. Chances are you remember your grandmother's sage advice: “Don't spend more than you earn.”

Many parts of that original document probably suited your grandmother. The 1846 constitution provided that all taxes levied in the state should be equal; that the treasurer should annually file a statement in the first week of January of the debts and expenditures that the state incurred during the preceding year; that the limit of state indebtedness should be \$100,000; and that the Legislature should provide for an annual tax sufficient to defray the estimated expenditures of the year (balance its budget).

Wisconsin was unique. In 1846, it was unusual for a state's constitution to be involved in fiscal matters in such a detailed way. But the unusual caution in the matters of finance, taxation, and public debt was the result of a successful economic policy pursued during

Wisconsin's territorial years. Some historians believe Wisconsin's fiscal discipline played a role in attracting immigrants to the state, as the state provided more economic certainty to potential settlers. This common-sense approach to finances appealed to hard-working, honest immigrants to the new land.

Although the 1846 version of the proposed Wisconsin constitution failed the public vote, with 14,119 votes for it and 20,233 against, a similar version passed a year later, and Wisconsin became a state—with rigorous fiscal discipline as a part of its foundation. It would be interesting to hear what those original framers might make of the state's economics today. “Aghast” is one word that comes to mind.

164 years later, it is clear that the founders' fears of fiscal mismanagement were well placed. Each Wisconsin budget is now an intricate tapestry of laws meant to unhitch state government from the constitutional balanced budget requirement insisted upon by the state's settlers. As each legislative session passes, the governor and Legislature continue to drag Wisconsin further away from the original fiscal discipline that served the state well for more than a century and a half.

Take, for example, the two sets of books Wisconsin keeps. On one set of books, state government shows a balanced budget every year. However, a second set of books shows the real picture: that state government is actually carrying a \$2.7 billion deficit.

What explains the difference? Wisconsin's constitutional balanced budget provision merely provides that the state balance its books on a “cash” basis; meaning, the revenue coming in must match the spending going out. However, elected officials have become expert at circumventing that requirement. They can seemingly make spending disappear and create revenue from thin air. To be blunt, imagine the reaction of the state's department of revenue if you tried to create this two-tier approach with your own personal income.

And if it is not allowed for the individual—and it is not—why should the state be able to exercise this sleight of hand?

ERASED SPENDING

Accountants know well how to erase spending in any year: push it into the future without backing away from the commitment to spend. Let's look at a couple of tangible examples. When homeowners opened their property tax bills last December, they saw a tax credit that reduced the gross amount of tax. Yet the state didn't have to actually pay for the credit until the following July. This allowed the state to make a commitment in one year while delaying paying for it until the next year. On a cash basis, state government erased the cost of the tax credit from its books. Yet, since the obligation remained, the true set of books shows the obligation big as life. Another example was a 2005 maneuver.



Facing a tough budget, the governor and Legislature moved a school aid payment date from the first Monday in May to the fourth Monday in July. Since the state budget year begins in July, this change seemingly saved the state \$65 million. Of course, it actually saved nothing and simply meant that schools had to wait almost three more months to receive the payment. Just for good measure, the Legislature required that school districts treat the July payment as if it had been received in the previous school year, adding insult to financial injury.

“By the end of 2008, Wisconsin had nearly \$6 billion of outstanding debt to repay—nearly half the total amount the state spends per year.”

INSTANT REVENUE

Within the overall state budget, there are a number of discrete pots of money. While most big-ticket items are in the general fund, a number of smaller funds exist, e.g. transportation and natural resources. When the general fund comes up short, rather than cutting spending, oftentimes the governor and Legislature will move money from another fund on a one-time basis. Of course, programs funded from the donor funds don't think this is remotely proper. The most pronounced transfer in recent memory is the \$1.3 billion transferred out of the transportation fund between 2003 and 2009.

Recently, no less an authority than the Wisconsin Supreme Court issued a strong rebuke for a \$200 million transfer from the Patients Compensation Fund—a fund that collects payments from physicians to offset malpractice claims. The fund was created in 1975 to restrain health care costs, and in 2003,

the Legislature passed a bill clarifying that the fund was to be an “irrevocable trust.” Just six years later, needing a one-time injection of money, the governor and Legislature, ignoring their own designation of irrevocable, moved \$200 million into the general fund. One year later, the Supreme Court basically said “nice try” and ordered that the money be sent back to the fund where it belonged.

Of course, when the state uses one-time revenues to pay for ongoing spending, it creates a structural deficit in the following biennium. The nonrecurring revenues used to plug the budget hole are not available to buttress those spending programs in succeeding years. Every dollar of one-time revenue used to pay for an ongoing program creates a dollar of structural deficit in the next biennium.

EXPANDING DEBT

Those old-time founders back in 1846 were prescient when they warned of the dangers of state debt. By the end of 2008, Wisconsin had nearly \$6 billion of outstanding debt to repay—nearly half the total amount the state spends per year.

Prior to 1969, Wisconsin could only issue up to \$100,000 in debt, for “extraordinary expenditures.” However, that year, voters amended the state's constitution to allow the Legislature to issue bonds, primarily for capital projects and land acquisition. Shortly after ratification of the constitutional amend-

ment, Wisconsin ranked 40th in the nation in debt per capita. According to a report issued by Moody's Investor Service in August 2010, Wisconsin is now 12th in the nation in debt per capita, barely behind notorious big-spending states like New York, California, New Jersey, and Illinois.

According to the Moody's report, Wisconsin's \$1,720 in debt per capita puts the state \$423 per capita above the national average, and \$784 above the national median of \$936 of debt per capita.

Looked at another way, Wisconsin debt has risen from 2.8% of personal income in 1998 to 4.6% in 2010. That's an increase of 64% in 12 years, and ahead of every other neighboring state. (Illinois is next at 4.4%, while Michigan is at 2.1%, Minnesota 2.4%, and Iowa at 0.2%.) The national median is 2.5%.

Just as troubling as the amount of debt is the changing purpose for which it is being used. Rather than merely financing capital projects, state debt is now being used to fund ongoing spending programs, directly contravening the spirit of the original constitution, further eroding the state's original charter.

As noted above, between 2003 and 2009, the governor and Legislature shifted \$1.3 billion from the state's transportation fund to the general fund. To partially make amends with the transportation community, they issued \$815 million in bonds to make up for much of the lost revenue to the transportation fund. So while the constitution directly prohibits issuing debt for ongoing spending programs, Gov. Doyle was able to complete this end run by bonding for “transportation,” and merely shifting other funds to pay for ongoing programs. It is a semantic distinction that makes sense only

to the budgeters in Madison and one that will cost the state's taxpayers an extra \$1 billion in interest payments over the life of the bonds.

Debt is now also being used to fund ongoing state obligations, including Wisconsin's state employee pension and health care liability. While the Pew Center on the States praises Wisconsin for having a well-funded public pension system, what is forgotten is that this is only possible due to the use of borrowed money. In 2003, Gov. Doyle and the Legislature approved borrowing \$750 million to pay off the unfunded pension liability. While they were at it, they also borrowed another \$600 million to liquidate unfunded liability for retiree health care. In total, they authorized borrowing \$1.35 billion for employee benefits.

Sadly, debt has become a routine funding source for the state government's operating costs.

FISCAL IMPRUDENCE: WHAT DIFFERENCE DOES IT MAKE?

“Stories about the state budget deficit make my editor's eyes glaze over,” explained the veteran reporter on why he took a pass on writing a story about state government's multibillion-dollar deficit. Stories about the dysfunction of state government finances are indeed a tough sell. In journalistic terms, they just aren't sexy. It's thought that readers will run to celebrity stories that have zero impact on their lives, while something like finance, which obviously requires more thought and has a direct bearing on their wellbeing, is ignored.

Yet, in spite of the paucity of mainstream reportage, the public has begun to connect the dots and is showing definite signs of interest. They know that things are not right in

Madison, and their misgivings begin with state government's damaged balance sheet. WPRI polling tells us that 47% of the people feel that state government needs major reform and that an astounding 73% of the people feel that the governor and the Legislature are not capable of solving the state budget deficit.¹

Beyond fueling a rather esoteric public policy debate, do the fiscal irregularities of state government matter? The answer is a resounding yes. To the extent that state government matters—and it does—the embarrassing nature of state government fiscal management significantly diminishes the quality of Wisconsin state government.

BUSINESS OWNERS GET IT... ECONOMISTS DON'T

Let us first examine the impact on state business. After all, business in many ways is the lifeblood of Wisconsin's quality of life, since our prosperity is tied to a healthy business sector. As John Gurda points out in his historical essay for this project, this is the key to survival. If the state's economy fails, people will leave the state. This is backed up as people across the state place jobs at the top of the list of things about which they worry. Anything that adversely affects business and job creation is troublesome, and state government's troubled financial condition clearly affects business.

The seemingly permanent state budget deficit introduces a degree of uncertainty for all businesses. Businesses always attempt to minimize risk and uncertainty, especially when emerging from a recession. It is widely understood that businesses have been reluctant to add permanent jobs or to undertake capital

expansions with the uncertainty surrounding Wisconsin's current economic recovery.

How does the unbalanced budget add to business uncertainty? First, the fact that state government debt has increased significantly and that the budget has a \$2.7 billion deficit is a clear signal that state government is attempting to support a level of spending that is not supported by existing revenues. Businesses understand that this will inevitably expose them to a higher tax liability.

One needs only examine the tax increases enacted in the current state budget to confirm this misgiving. In spite of declining tax revenues, the budget included two-year spending increases of 8.4%. While some of the increase was funded by federal stimulus money, a large share was funded by a substantial increase in the tax on businesses. State government passed combined reporting, increased the capital gains tax, increased the corporate income tax and added a new top income tax bracket. Wisconsin Manufacturers & Commerce (WMC) reports that the multitude of increased business taxes will increase the effective state tax on businesses by an astonishing 25%.² Yes, businesses are correct in surmising that, owing to Wisconsin's tradition of unbalanced state budgets, businesses are right to plan on a higher tax bill in the future. Individuals should as well.

For businesses that have an option of adding jobs in Wisconsin or elsewhere, all of the signals related to the dysfunctional budget will give them a reason to pause before adding those jobs in Wisconsin. Other businesses, typically small businesses, even if they are tied to Wisconsin, will be much less willing to add permanent jobs or expand their capital invest-

ment in a climate fraught with uncertainty. In a recent survey conducted by US Bank, 86% of small businesses believe the economy remains in recession—several months after many of the top economists have declared the recession to be over. Fewer than 30% say they intend to make capital expenditures in the next year, a key indicator of business confidence. This is attributable to a sense of uncertainty related to the general economy and concerns about health care costs and taxes.³

Wisconsin businesses understand that they will be early targets to make up for state budget shortfalls. Even when the law is unclear, business can be subject to the vagaries of state tax collectors. In 2003, the Department of Revenue “legislated by audit.” The department has a long history of supporting combined reporting for state income taxes, which would have made subsidiaries taxable. In 2002, Gov. Doyle proposed combined reporting, but his proposal did not pass in the budget bill (it eventually did pass in 2009). Instead of waiting until the Legislature acted, the governor's Department of Revenue began aggressively asserting that Wisconsin law required taxing the income of out-of-state subsidiaries, when the legal basis was questionable and the established practice had been not to do so.

Ideally, state government would send a clear message to the business community that the tax climate is stable and the tax liability is

predictable, since businesses, like families, do not flourish in an era of uncertainty. What state policymakers seem not to understand is the fragile nature of most businesses. The typical successful business has an operating margin of 3%-5%, meaning that either an actual or an anticipated tax increase will tangibly affect

a business' decision to expand now or to wait. To an extent, Wisconsin has earned its reputation as a high-tax state. (The Tax Foundation ranks Wisconsin near the bottom, having a tax climate ranked 42nd nationally.) When businesses hear elected leaders cavalierly discuss taxing business, the clear signal sent to businesses is that the elected leaders in Madison simply do not

grasp how hard it is for a business to succeed and to sustain success through the economic highs and lows.

IMPACT ON THE PUBLIC TRUST

Wisconsin's dubious fiscal maneuvers are also affecting the public opinion of government. In school we were taught that, unlike the federal government, state government cannot print money when it has a fiscal pinch. For generations we believed that the state budget had to balance. That bubble has burst, as we have seen budget after budget patched together with creative debt, shifting payment dates, and an elastic set of bookkeeping rules that are changed by the governor and Legislature when it suits their needs. But the public is catching

“For businesses that have an option of adding jobs in Wisconsin or elsewhere, all of the signals related to dysfunctional budget will give them a reason to pause before adding those jobs in Wisconsin.”

on. Here is what the citizens of Wisconsin have said in 2010 polling.⁴

- 85% believe that, in spite of a balanced budget requirement, the budget has a \$2.7 billion deficit.
- 73% believe that the elected leaders in Madison are not capable of solving the state budget deficit.
- 58% question the trustworthiness of the elected leaders in Madison.
- 69% rate the job of state government as fair or poor.
- 64% are frustrated or angry with state government.

IMPACT ON THE QUALITY OF GOVERNMENT

Finally, an often overlooked impact is inside government itself. State employees have a rich understanding of the fiscal shenanigans elected leaders have used to balance the budget. They know that numbers are often manipulated, fiscal rules are changed and presentations are altered to mask troubling news. State employees describe state fiscal management as being dominated by politics, regardless of which party is in power. It is incapable that the routine and thinly disguised fiscal manipulations used to show a balanced budget strongly influence the value system of state government. In order for state workers to know that their industry has integrity, they must be assured that their leaders are not inclined to play fast and loose with the state's books. If there is hope of restoring the confi-



dence citizens have in their state government, all actors, especially state workers, must know their business has integrity.

WHAT SHOULD BE DONE?

WPRI has been calling for reform of the state budget system since 2003, when we issued our first study with the following warning:

“This study makes a case for overhauling and modernizing budgeting in Wisconsin. No one would invest in a business that uses the fiscal planning and controls used to balance budgets in Wisconsin. It would exceed the risk

tolerance of the most venturesome investor. Yet what is more important than the programs funded from the state budget? The undependable nature of the state budget jeopardizes Wisconsin cities, schools, businesses,

services to the most vulnerable citizens, economic growth. If the governor and the Legislature fail to address the long-range budget issues, all of Wisconsin should be prepared for more fiscal uncertainty in the future, and maybe even that tax increase nobody wants.”⁵

Unfortunately, that admonition went unheeded, and our prediction of uncertainty and tax increases has come true. The following fixes are strong medicine and represent a seismic shift in Wisconsin's budgeting culture. Yet they are guaranteed to provide the certainty that job-creating businesses crave, and will go a long way toward restoring the public's confidence in their government.

Eliminate the deficit. In the short term, our elected leaders should commit to making the \$2.7 billion deficit no worse. Beyond that, the state should embark on a path to eliminate the deficit over the next 10 years.

Eliminate the use of debt and other one-time revenues. If spending cannot be supported without one-time funding, then spending must be cut. This simple maxim will serve state government well.

Establish a reserve equal to two percent of the budget. The current budget includes a reserve of \$65 million, which amounts to less than one-half of one percent. A two percent reserve—approximately \$300 million—would provide a much-needed cushion for the state budget.

Establish a spending goal. The next governor should convene a State Expenditure Commission charged with setting a long-range spending goal for state government. The fundamental question for the commission to address is how much of Wisconsin's economy should be devoted to state (and perhaps local) government. No such strategic review of government spending has been undertaken since 1986. It is long overdue.

Create an Economic Council. Wisconsin should adopt a formal Economic Council composed of financial experts from business, universities and government. The council would be charged with producing state government revenue forecasts. Further, the council should translate the long-range spending goals into parameters within which state budgets would be developed by the governor and Legislature.

With a touch of irony, Wisconsin's problems are really a microcosm of what has happened in our federal government as well: more and

more debt piled on over the past four decades in what may have been one of the most bipartisan endeavors since World War II. The leaders of both parties are responsible for the mess we find ourselves in. The most serious question of our time may be how to right this ship and correct our course.

In an almost macabre sense, there is likely to be resistance to changing the way budgets are constructed. As Stephen Goldsmith articulates elsewhere in these pages, the key players have become accustomed to the predictability and the political nature of the process. This includes interest groups, state agencies and elected officials. Therefore, even though the current process has yielded results that satisfy no one, it is unclear that there will be a groundswell to change the process.

Yet, now is the moment to change the system, to bring more predictability and certainty into the process, to make the state budget something on which all Wisconsinites can depend. It will require a good deal of innovative thinking, flexibility and statesmanship to develop the long-range fiscal plan that will spell an end to budgets riddled with debt, deficits and uncertainty. No changes of this magnitude have been made for several decades. The opportunity for reform is clear.

The peril to Wisconsin comes if these issues are not addressed.

Endnotes

¹ WPRI public opinion survey, June 2010.

² James Buchan, WMC, April, 2010.

³ Paul Gores, *Milwaukee Journal Sentinel*, July 29, 2010.

⁴ Data presented here are taken from WPRI public opinion surveys conducted in June and July 2010.

⁵ WPRI Report, “Reforming Wisconsin's Budget for the Twenty-First Century,” April 2003.



Education reform

SOUNDING THE ALARM: A WAKE-UP CALL WITH DIRECTIONS

— BY FREDERICK M. HESS AND OLIVIA MEEKS —

Frederick Hess and Olivia Meeks of the American Enterprise Institute examine one of the most challenging aspects of education—how to create great teachers. It turns out it is not impossible. And Hess and Meeks explain how this fundamental building block to improving K-12 education can take place...even in a system fraught with problems.

There was a time when Wisconsin was a leader in school reform, and it wasn't that long ago.

All you have to do is go two decades back, and the state's performance on reading and math assessments put its students in the nation's upper tier. The 1990 Milwaukee Parental Choice Program was heralded as a watershed for school choice, and today, it is the nation's largest school voucher program. Wisconsin was also an early adopter of charter schooling, and its SAGE class-size-reduction program gained national attention in the 1990s.

In the current education landscape, those days of innovation seem a long way off. Wisconsin is no longer mentioned as an education innovator in the same breath as states like Louisiana, Tennessee, or Colorado. Wisconsin has also seen a tremendous erosion of its once-impressive math and reading performance. In 1990, Wisconsin outperformed 76% of the states in eighth-grade math scores. Today, Wisconsin has fallen to the middle of the pack.

In reading, the decline has been even more precipitous.¹ And all of this has happened in spite of the fact that statewide per-pupil spending has risen from \$7,749 per student in 1990 to \$10,041 in 2007 (in constant 2007 dollars), proving that just throwing money at a problem will not solve it.²

Perhaps the most vexing statistic is the racial divide – 93% of white students graduated high school in 2009 statewide, compared to only 66% of African-American students.³ This is a divide that no state or country can tolerate if it intends to remain functioning, let alone successful. The situation is most grim in Milwaukee, where only one-third of African-American tenth-graders—34%—are proficient in reading compared to 67% among their white classmates; in math, 19% of African-American students are proficient compared to 56% of white students.⁴

What will it take for Wisconsin's policymakers to improve these dismal statistics

and return Wisconsin to leadership in K-12 schooling? Ironically, many of the solutions to right this foundering ship are already available today. The problem is that it will demand intrepid leadership and innovative thinking to take on an entrenched and beleaguered profession, and for too long, Wisconsin has lacked the bold leaders who are willing to do what is necessary.

This essay is not just a blueprint for the state’s leaders; it is a wake-up call with directions. Each of the suggestions offered here has the potential to begin changing the dynamics of Wisconsin schooling, so that cost-effectiveness is brought out of the shadows, the incentives that reward lethargy and discourage initiative are reshaped to instead reward performance, and opportunities are created for outside innovators to better serve all of our children. However, leaders must also realize that nothing will end the downward spiral unless they choose to act.

Keeping in mind that these suggestions are off the beaten path, it’s important to also look at the more systemic, broad-gauge needs in the sector. None of these points should come as a surprise to anyone who has remotely looked at the problems in education in Wisconsin and, frankly, throughout the country. But taking the necessary steps to correct them is frequently more of a political question that, for a variety of reasons, our leaders have been either unwilling or afraid to tackle.

- There has to be an improvement in teacher quality.
- Curriculum has to be strengthened in the core subjects.
- Schools and teachers must be held accountable.
- Excellence must be rewarded.
- Discipline and school safety must improve.
- The number of high-quality charter schools has to be expanded.

• Persistently low-performing schools have to be either turned around or shut down.

Some specific suggestions on these counts are thoughtfully sketched in the complementary analyses for this project by Alan Borsuk, Sarah Archibald, Ruth Fernandez, and Scott Niederjohn. Our aim in this paper is not to review proposals for teacher pay

systems or tenure reform, but to focus on a few ideas that tend to fall between the cracks and that begin to address the structural barriers that impede dramatic leaps in K-12 productivity. None are quick-fix solutions, nor do they promise a rapid boost in test scores. Rather, they are proposals to start addressing the structural roadblocks that have made deep-seated improvement so difficult.

GOLD STAR TEACHERS

First, an inconvenient truth. The classic method for improving education has been reduction in class size. Smaller classes are always better for kids, the thinking goes, and any challenge to

“Gold Star Teachers would have the opportunity to become more productive by teaching more students per class, and would be rewarded for their increased workload...”

this status quo immediately encounters a buzz saw of opposition from parents and teachers, who are drawn to the obvious appeal of smaller classes. The costs of small classes, however, are high and not just monetary—they dilute the quality in the teacher workforce, reduce training for individual teachers, and use funds to hire more bodies rather than for higher salaries.

Yet surprisingly, the research supporting across-the-board class reduction is thin, at best. The evidence that proponents most frequently cite—based on the Tennessee STAR experiment—is shockingly narrow to base an entire theory on. This research suggests that smaller classes are not a uniformly good idea and that while dramatic reductions in class

size at first grade and kindergarten could yield some benefits, these results were contingent on there being no accompanying dilution of teacher quality.⁵ Of course, in the real world, these conditions rarely hold. Meanwhile, international evidence suggests there is no simple relationship between class size and student achievement. Some nations that excel in middle school mathematics, for example, have class sizes in that subject ranging from 40 to 50 students per class.⁶

Given the current fiscal crisis in Wisconsin, class size reduction is on hold—or receding. The fact that roughly 55% of K-12 outlays go to salaries and benefits for teachers means that district officials are forced to start reducing the ranks of teachers as they address these

shortfalls, but they rarely have the tools to use teachers in smarter, more cost-effective ways as they do so.

But rather than seeking to compel parents or teachers, against their preferences, to accept substantially larger classes across the board, the “Gold Star Teachers” initiative—in which highly talented teachers are given the opportunity to teach more kids per class—is intended to reshuffle the incentives, improve instruction, save dollars, and create a productivity-enhancing dynamic that puts superintendents and principals in positions to better utilize their talented teachers.

Research suggests, and experience shows us, that some stellar teachers can comfortably handle three dozen

students or more. While today’s value-added data systems have limitations and while student performance on reading and math assessments is not a simple proxy for teacher quality, value-added measures provide a systematic way to identify teachers whose students are consistently achieving outsized gains. And these teachers whose students register greater gains compared to their Wisconsin peers for at least two consecutive years would be eligible to participate in the Gold Star Teachers program should they so choose.

Gold Star Teachers would have the opportunity to become more productive by teaching more students per class, and would be rewarded for their increased workload even as the state pockets substantial savings. Teachers’



continued participation in the program would be made contingent on their students continuing to make larger-than-normal gains. Though hard to imagine just five years ago, enforcing such eligibility criteria is now feasible given today's technological tools and refined data collection.

The benefits of Gold Star Teachers would flow not merely to the students now able

to learn from these talented educators, but also to public officials, school district leaders, and taxpayers. Allowing a talented teacher to instruct, say, 35 students instead of 20 (Wisconsin's statewide average reported class size today) would

boost a teacher's productivity by 75% if those students fared equally well.⁷ These savings, of course, should be shared by the state with districts and participating teachers to incentivize and reward performance.⁸

Today, principals often ask good teachers to take on tough roles simply because it's the right thing to do. When asked to take a few especially demanding students or a couple extra kids, teachers are not currently rewarded or recognized—they're simply asked to be good team players. The Gold Star Teacher program would change this inequity.

What about parents? All things equal, parents typically prefer smaller classes. But all is not equal. At every school in Wisconsin, involved parents always know who the best teachers are. Smaller classes mean that these teachers can work with fewer children. This

is fine for those parents whose children are fortunate enough to get into those classrooms, and among those who know how to work the system to obtain such a slot, but it creates frustration among parents whose children do not get into the class of a heralded teacher.

Given the choice between a Gold Star Teacher serving more children and another teacher working with fewer, many or most par-

ents will likely prefer the larger class. But it is essential that parents be given a choice. The logic of the Gold Star Teacher program is that it is all about choices—by teachers, by parents—and not about fiat.



TURNAROUND BONDS

Despite the growing number of nontraditional providers, district officials remain reticent or downright opposed to turning over schools to outside providers. But limiting these providers, especially those with successful track records, impedes the ability of districts to leverage expertise in boosting faculty productivity, student outcomes, and cost-effectiveness. This state of affairs is especially troubling when it comes to turning around persistently low-performing schools, as many districts are struggling to deliver on their own but remain hesitant to utilize external providers.⁹ One useful way to start reassuring district and state officials, and to address concerns about unproven or privately operated turnaround operations, is to adopt a bonded system of performance guarantees.¹⁰

Given the uncertain results, political dangers, and unmapped responsibilities of partnering with new providers or allowing the establishment of new schools, the risks are simply too great for many state or district officials to countenance. In 2004, Gov. Jim Doyle vetoed Senate Bill 253, which called for allowing the University of Wisconsin-Madison to authorize five new charter schools in Milwaukee, due to his concerns that it would “drain state funds from existing public schools.”¹¹ When the nationally recognized SEED Foundation of Washington, D.C., sought to establish an urban boarding school in Milwaukee, the state's finance committee turned them down even as advocates raised \$3.5 million in private donations for the school and the U.S. Secretary of Education voiced his personal support.¹²

Instead of denying new providers access due to risk aversion, a more constructive response is for the state to create a bonding system analogous to that used by firms eligible to bid on state capital projects. Turnaround bonds would require operators seeking to take responsibility for low-performing schools to post a performance bond guaranteeing that they would meet specified performance goals. Rather than the asymmetrical assurance provided by charter authorizing (where charter operators can lose their charter if they fail to perform, but otherwise have no “skin in the game”), the turnaround bond would require that operators post a substantial, specified sum that they would forfeit if they failed to deliver the promised results. In this sense, the turnaround bond would be similar to the bonds posted by firms contracted to build highways or high schools in a timely, satisfactory manner.

By creating a bonding authority and clearance facility, the state would make it possible both for the state superintendent and local districts to employ these bonded agents. In accord with state-specified performance parameters and based on the specific agreement negotiated with the operator, districts could set performance standards relating to student achievement, completion, attendance, and the like, while the bonds could be negotiated for varying periods of time.¹³

The state would need to do four things to make turnaround bonds possible. First, it would need to establish a legal framework for these bonding arrangements and for districts to collect from providers that fail to deliver. Second, it would need to create a facility for approving bonded providers, including okaying and then holding in reserve their bonded sums. Third, it would need to establish permissible performance parameters and explicit rules for judging whether providers had met the standards in question. In many cases, it will be imperative to establish a “judge,” such as a neutral third party or surety firm, to assess evidence of performance in cases of disagreement. Finally, the state must set parameters regarding the amount of the bond.

The scale of the bond is a question deserving careful discussion, but something in the range of 30 to 35% of annual operational expenditures would represent a reasonable compromise—this would amount to roughly \$2 million in a Wisconsin school of about 500 students. Over a three-year contract, that would require the operator to post a bond equal to about 10% of total outlays. This is a sum large enough to constitute substantial compensation to the district and affected students if the

operators fall short, but is not so large as to be prohibitive.

Crucially, turnaround bonds would help to alleviate the justifiable fears of officials, district leaders, and other citizens concerned about spending public monies on nontraditional providers. Bonds would also help incentivize performance and help make Wisconsin an attractive venue for proven performers and inhospitable terrain for charlatans and unproven operators. By mitigating uncertainty, controlling quality, sharing responsibility, and providing political cover, performance guarantees can enable the broader adoption of new providers and bolster the demand side of the school reform equation.

“...simply choosing between schools made more sense 20 years ago, but is limiting in the new world of virtual schooling and educational software.”

EDUCATION SPENDING ACCOUNTS

It’s peculiar that the power of markets to engender price competition remains so unexplored in K-12 education. Though parents can sometimes choose from School A or School B, public school spending today entails a zero percent contribution from parents, and parents currently gain nothing from choosing a more cost-effective district school or charter school. A big part of this is due to complacency and a general sense that this is the way it’s always been done and the way it always will be done. And this might be at the heart of the problem—the inability to change what has always been.

One tack is to take steps that leverage the insights of school choice but broaden these

ideas so that they extend beyond “school” choice. The older model of simply choosing between schools made more sense 20 years ago, but is limiting in the new world of virtual schooling and educational software. In the health care debates, even the most ardent single-payer enthusiast presumed that patients should be free to make a series of choices among physicians and providers. Yet, when it

comes to schools, the most expansive vision of choice entails allowing parents to choose School A or School B. This may appeal to urban parents eager to escape awful schools. It does little, however, for the majority of parents—and especially for the vast majority of suburban parents—who like their schools but who may wish to take advantage of

a different math or foreign language program. Permitting families to redirect a portion of the dollars spent on their child through a kind of health savings account analog would address unmet needs, allow niche providers to emerge, foster price competition on particular services, and make the machinery of educational choice relevant to many more families.¹⁴

Wisconsin would do well to start exploring a new model at the high school level. It ought to continue insisting that schools provide the 11 core credits, amounting to about 55% of the high school curriculum, but then rewrite the funding formula so that the per pupil allocation currently delivered to school districts is broken into two pieces: 55% to fund “core” mandated instruction and 45% deposited in a

virtual Educational Spending Account (ESA) created for each child. Parents would have a choice. They could direct those ESA dollars to their child’s school and simply enroll their child in the usual manner, or they could use them to procure instruction from other state-approved providers.

Do families actually care about the “ancillary” services that would be best served through ESAs? They sure do. New polling from University of Wisconsin’s Kenneth Goldstein found that 63.9% of Wisconsin adults identify music as very or somewhat important when it comes to schooling. Indeed, 35.5% of adults who live outside of Milwaukee identified music as “very important.” When it came to foreign language instruction, 58.7% of Wisconsin adults said that they believe it is very or somewhat important. Nearly one-third of adults who live outside Milwaukee—31.0%—said it is very important. And 80.1% of adults statewide said they believe physical education to be very or somewhat important, with 48.3% who live outside of Milwaukee deeming it very important.¹⁵

For all the rightful import accorded to reading and math performance, parents are also concerned with the quality of a number of other school services. Meanwhile, districts are struggling to maintain the quality of those services. A 2009 survey of 315 Wisconsin school administrators indicated that, due to the current budget situation, 58% of superintendents

expected to cut programs such as art, music, and foreign language.¹⁶

The Education Savings Account offers a chance to both address parental concerns and infuse price consciousness into K-12 schooling. Take, for instance, the case of foreign language. One provider that might apply for ESA eligibility is Rosetta Stone, which sells foreign language instruction in 150 countries

and which can be purchased at a half-dozen malls across Wisconsin. Rosetta Stone offers instruction in 31 languages, including Mandarin, Arabic, and Japanese.¹⁷ Some parents might prefer enrollment in one of those languages to the usual French or Spanish,

or they might believe the research suggesting that the program—or that of a competitor like Auralog or LiveMocah, Inc.—is equal or superior to the instruction provided by most K-12 language teachers.¹⁸ Sufficiently wealthy parents can just purchase these kinds of services on the side, paying the \$485 for a Rosetta Stone program. But, for other families, such an option is currently off the table. It needn’t be.

How would this work? In the case of foreign language instruction, any of these providers—and their competitors—could apply to the state, which would employ an enhanced version of the infrastructure designed to handle Supplemental Educational Service providers under No Child Left Behind. Each approved provider would, just as if they were bidding on other state contracts, be expected to specify



unit prices. Parents would then be free to use ESA funds at their child’s school or at any state-approved provider.

The ESA model would promote three extraordinarily healthy dynamics. First, it would begin to make educational choice part of a continuum that serves all of the state’s families. This would help bridge suburban-urban divides that have often complicated efforts to promote sensible school choice policies. In particular, it would give parents across the state a tool to help meet the particular needs of their children. Second, it begins to free school districts from the expectation that every school will meet every need for every child. Instead, it makes it possible for specialized providers to start meeting the varied needs of Wisconsin’s children. Third, it starts to create healthy price competition in a sector where it has long been absent. Since parents who choose public district or charter schools are selecting among an array of zero-cost options, they have no incentive to worry about school cost. Consequently, there is no consumer pressure to reduce cost. Indeed, if anything, there is grudging resistance to the notion of cost-cutting in K-12 education. Because they will be able to spend ESA dollars on any approved educational expense, parents will for the first time have a reason to comparison shop—as the dollars they save could be spent on tutoring, computers, or even saved for college tuition (depending on what the state chose to deem an approved expense).

There is obviously much to figure out in such a system. Nonetheless, pioneering even a modest version of the ESA for low-income families has the potential to make Wisconsin a national leader in meeting the educational needs of all its children and beginning to bring healthy cost-pressures to bear on a sector where spending has long been out of control.

CONCLUSION

“...Wisconsin is once again well-positioned to resume its leading role [in education], should it choose to do so.”

As we said at the start, the critical component here is the commitment by state leaders to aggressively root out and remove those barriers that currently impede problem-solvers. For instance, the state today limits virtual charter schools, such as Appleton’s Wisconsin Connections Academy, to no more than 5,250 students.¹⁹ At a time when districts are seeking ways to cost-effectively enhance learning opportunities, such rules arbitrarily restrict the ability of quality providers to serve students. State leaders ought to ensure they have sensible quality control systems in place to gauge the performance of various providers, and then commit to scouring state statutes, regulations, and rules that may have once made sense but that now get in the way of effective providers.

It is also crucial for state leaders to begin taking cost effectiveness seriously. State accountability systems today devote enormous attention to student learning but none to the question of whether schools or school districts are producing those results in a cost-effective

manner. Linking school and district spending to student outcomes, even if purely for informational purposes, can begin to transform discussions about what it means to be an effective school or district.

For too long, education reform was deemed just a question of “best practices” and fixing schools. In the past decade, efforts to promote accountability and data, expand charter schooling, and reform teacher pay and tenure have taken a central place, and much progress has been made on these counts. Too often absent, however, is a vision of how to use these new data systems, technologies, choices, and talent in smarter, more cost-conscious ways to better meet the needs of all students. On this score, Wisconsin is once again well-positioned to resume its leading role, should it choose to do so.

Endnotes

¹ These figures were based on David Dodenhoff’s presentation, entitled “Wisconsin’s Future” and presented on June 17, 2010 at the Manhattan Institute. They are based on the 1990 and 2009 NAEP data for math and reading, available at <http://nces.ed.gov>.

² Figures are in constant 2007 dollars. Available on the National Center for Education Statistics website, http://nces.ed.gov/programs/digest/d09/tables/dt09_182.asp.

³ Data compiled by Wisconsin Information Network for Successful Schools, available at <http://data.dpi.state.wi.us/data/HSCCompletionPage.aspx?GraphFile=BlankPageUrl&S4orALL=1&SRegion=1&SCounty=47&SAthleticConf=45&SCESA=05&OrgLevel=st&Quad=performance.aspx>.

⁴ *Milwaukee Public Schools 2008-2009 District Report Card* (MPS Division of Research and Assessment, 2009), 52. Available at http://www2.milwaukee.k12.wi.us/actrep/0809/2009_district.pdf.

⁵ See Eric A. Hanushek, “Some Findings from an Independent Investigation of the Tennessee STAR Experiment and from Other Investigations of Class Size Effects,” *Educational Evaluation and Policy Analysis*, Summer 1999, Vol. 21, No. 2, pp. 143-163.

⁶ See Ludger Woessmann and Martin R. West, *Class-Size Effects in School Systems Around the World: Evidence from*

Between-Grade Variation in TIMSS, (Institute for the Study of Labor [IZA] Discussion Paper, April 2002.) For further discussion, see also Mark S. Tucker and Judy Coddling, *Standards for Our Schools* (Jossey Bass, 1998); Ronald G. Ehrenberg, Dominic Brewer, Adam Gamoran, and J. Douglas Willms, “Class Size and Student Achievement,” *Psychological Science in the Public Interest*, Vol. 2, No. 2, pp. 1-30.

⁷ Figures based on average self-contained class size, which is 19.7, according to the 2007-2008 SASS Survey. Available at http://nces.ed.gov/surveys/sass/tables/sass0708_2009324_t1s_08.asp.

⁸ In practice, these calculations get much more complex. Class size practices and rules vary: In Milwaukee Public Schools, for instance, there is a 25-student class size restriction in grades K-5, but the formula for grades 6-12 currently allows larger classes and a substantial amount of variation. Given that average salary and benefits for a full-time Wisconsin teacher is about \$74,844, according to calculations based on 2010 Wisconsin Department of Public Instruction data, this yields a savings of more than \$55,000. (Calculations based on Wisconsin Department of Public Instruction’s Fall 2010 PI-1202 Fall Staff Report, available at <http://dpi.wi.gov/lbstat/newasr.html>. The figure was calculated by averaging the totals of average teacher salary and average fringe for all reporting districts.)

Let’s take this savings estimate a step farther. Imagine the program started with teachers in grades 4-8, say, where reading and math value-added can be most readily calculated. According to calculations of teacher populations based on 2010 DPI data, that’s 26,218 Wisconsin teachers today, of which perhaps one-quarter might be eligible. (The number of teachers in grades 4-8 was generated from data provided by school districts on Fall 2009 PI-1202 Fall Staff Report, which can be found at <http://dpi.wi.gov/lbstat/labels.html>. This number represents an estimation, which was arrived at by multiplying the total number of teachers that were labeled as “elementary” teachers by .45 and adding this number to the total number of teachers that were identified as “middle school” teachers.) Such a calculation would yield slightly over 6,500 teachers. If just half of those teachers opted to participate, initial savings would be in the vicinity of \$180 million per year.

Because they are more productive, Gold Star Teachers would deserve appropriate compensation—above and beyond any other merit bonuses. The simplest formula is for the state, school district, and participating Gold Star Teacher to split the savings. Given average teacher pay and benefits today, and average statewide class size, teacher pay works out to more than \$3,500 per student. Teachers who taught 35 students instead of 20 would generate savings of \$50,000 to \$55,000. A three-way split would give participating teachers a productivity bonus of \$17,000 or \$18,000, and would save a like amount for the state and

the district. In practice, of course, the finances would be much more complex—as would calculations regarding actual class size and Gold Star class size—but this example should be sufficiently clear for illustrative purposes.

⁹ In Wisconsin, since 2004-05, 23 schools have been closed for low performance and five have been converted to charters. (Please see *State of Wisconsin Race to the Top Application*, June 1, 2010, p. 234. Available at http://www.dpi.wi.gov/sprntdnt/pdf/rttt_rnd2_application.pdf.) Of Wisconsin's 12 lowest-achieving schools in 2010, four are facing closure, one is preparing to restart (meaning a charter conversion or reopening under new management), and six are slated to be engaged in significant transformations, including actions such as principal replacement and curriculum reform. (Please see *State of Wisconsin Race to the Top Application*, June 1, 2010, p. 234. Available at http://www.dpi.wi.gov/sprntdnt/pdf/rttt_rnd2_application.pdf.) Act 215, passed in 2009, sought to bolster these efforts by giving the state superintendent new leeway to intervene in failing schools, and Wisconsin's Race to the Top application noted that the state has budgeted \$1.6 million to hire "a State Turnaround director and five turnaround specialists to work with the lowest-achieving schools." (Please see *State of Wisconsin Race to the Top Application*, June 1, 2010, p. 236. Available at http://www.dpi.wi.gov/sprntdnt/pdf/rttt_rnd2_application.pdf.)

¹⁰ For more information on performance guarantees, see Bryan Hassel and Daniela Doyle, *Shifting Risk to Create Opportunity: The Role of Performance Guarantees in Education* (AEI Working Paper Series, 2010), available at <http://www.aei.org/paper/100130>.

¹¹ Gov. Jim Doyle, April 21, 2004 Press Release. Available at http://www.wisgov.state.wi.us/docs/042104_Veto_SB253.pdf.

¹² Erin Richards, "Urban SEED School: Budget Dashes Hopes for Public Boarding School," *Milwaukee Journal Sentinel*, June 7, 2009. Section B, p. 1.

¹³ If operators fall 10 percentage points short of the standard in question, then a 10 percent penalty will be collected from the bond. The balance of the bond, if it exceeds the financial limits of the provider, could be backstopped by an outside guarantor—whether a philanthropy, for-profit, or other non-profit group. A virtue of this model is that it requires turnaround providers to find guarantors willing to insure their model, sending powerful signals depending on whether operators can find willing guarantors.

¹⁴ The state could facilitate this kind of educational choice by borrowing a familiar notion from the world of health care reform—namely, the idea of the Health Savings Account. Except, because the state already funds schooling for every student, it can go these family-funded plans one better. The state of Wisconsin spent \$6.2 billion in 2009 educating all of its students, and local school districts spent, on average, another \$50 million per year educat-

ing theirs. (Figures based on budget information from Wisconsin Department of Public Instruction, available at <http://www.dpi.state.wi.us/pb/pdf/act20sum.pdf>.) At the high school level, those state funds help provide the state-mandated 21.5 course credits that students need to graduate. The state requires that 11 of those be in English, math, science, and social studies—and mandates another 0.5 in health and 1.5 in physical education—but is agnostic about the rest. (Please see the Wisconsin Department of Public Instruction's *High School Graduation Standards, Wisconsin Statute 118.33*. Available at <http://dpi.wi.gov/cal/grad11833.html>.)

¹⁵ Figures based on Kenneth Goldstein's "Wisconsin Study" distributed in July 2010.

¹⁶ "Wisconsin Students Losing Out Under Revenue Controls," Wisconsin Education Association Council, April 14, 2009. Available at http://www.weac.org/news_and_publications/09-04-14/Wisconsin_students_losing_out_under_revenue_controls.aspx.

¹⁷ Rosetta Stone pricing and product information available on official website, www.rosettastone.com.

¹⁸ In one study conducted by faculty at Queens College of the City University in New York, for instance, participants who engaged in 55 hours of Rosetta Stone coursework achieved similar language proficiency gains to students enrolled in a semester of entry-level college Spanish. For more information, please see Roumen Vesselinov, "Measuring the Effectiveness of Rosetta Stone," January 2009. Available at http://resources.rosettastone.com/CDN/us/pdfs/Measuring_the_Effectiveness_RS-5.pdf.

¹⁹ Amy Hetzner, "Virtual Charter School Enrollment Short of Cap," *Milwaukee Journal Sentinel*, November 13, 2009, Section B, p. 5.

GREAT SCHOOLS? NOT WITHOUT GREAT TEACHERS

—BY SARAH ARCHIBALD—

Sarah Archibald, an education policy consultant, diagnoses the key problem facing education in Wisconsin: how to ensure that our classrooms are led by the best possible teachers. Archibald prescribes a tough-love approach that will turn the education establishment on its head. The people of Wisconsin asked for bold leadership. Sarah Archibald's ideas are just what they asked for.

Here is one of the great disconnects of our time: 60 percent of Wisconsin citizens rated the public schools in the state, with the exception of Milwaukee, as excellent or good. Two years ago, that number was even higher—just under 70 percent. People don't seem to believe anything is holding education back in Wisconsin. But there are times when fact interferes with perception and—bad news here—this is one of those times. When compared to 17 other large urban districts including Chicago and New York City, Milwaukee's students are in the back of the pack—only Detroit's students score lower in math and reading in fourth and eighth grades. Largely driven by the abysmal performance of many of Milwaukee's public schools, our state has the most persistent gap in achievement between black and white students in the country.

This isn't just a Milwaukee problem; it's a state problem. And the problems don't end there.

Wisconsin employs more than 50,000 teachers, at an annual cost of approximately \$3.65 billion,¹ and yet it has no common means of measuring teacher effectiveness. The majority of these teachers have a continuing contract, which is another word for tenure — meaning, with few exceptions, they have that job for life if they want it. This might not be such a bad thing if teachers had to demonstrate their effectiveness in the classroom to get this lifelong contract—but they don't. To put this in context, is *your* job guaranteed for life? And if it is, did you have to prove your ability in your job to get it? Somehow, it has come to pass that most teachers are immune from the realities of the workplace that every other citizen faces. Can you imagine another profession in which it is against the law to fire someone from their job because they are not achieving the desired outcome?

While Wisconsin does have a licensure system for its teachers, which requires a rigor-

ous content test, this only screens out potential teachers who lack basic knowledge and does very little to differentiate between effective and ineffective teachers once they reach the classroom. Initial educators can choose what area they want to work on to improve their teaching (rather than being required to focus on deficient areas), and worse, no one checks to see whether they actually do what they say they will do. So although teachers have to pass a second test to get their license, it is the Institutions of Higher Education, rather than the state, that sets the passing grades for this test. The result is that this procedure completely lacks teeth.

Wisconsin could have more high-quality teachers and school leaders, but not without getting comfortable with having teeth.

If Wisconsin wants to get serious about education, it must begin by questioning some of the policies near and dear to the hearts of the teachers union leadership. Questioning these policies is *not* meant as an indictment of teachers. Polls show that Wisconsin residents have a high regard for the honesty and integrity of teachers, but these same residents have a low opinion of teachers unions. Part of the reason for this is the incongruent goals of a teachers union and the goals of public education reform: The former advocates for the rights of teachers, while the latter seeks to improve the quality of education for all of Wisconsin's children.

“If Wisconsin wants to get serious about education, it must begin by questioning some of the policies near and dear to the hearts of the teachers union leadership.”

In order to improve the overall quality of teaching, state education leaders are going to have to question the policies that unions fight so hard to protect—those that keep low-performing teachers in classrooms and the inability to use student performance on standardized tests as grounds for the dismissal of a teacher.

There's another serious player here that is generally not open to innovation: local school boards. At best, they make decisions that maintain or improve fiscal stability; at worst, they make it difficult, if not impossible, for superintendents to implement and sustain aggressive reform agendas. Some argue that they should be abolished—that they are an anachronism from the little red schoolhouse days that serve no purpose today other than to maintain the local control that has us performing at current levels.²

Who decides educational issues in Wisconsin, and why are they so cut off from public opinion?

Wisconsin is one of two states, along with Minnesota, that do not have a state board of education that is at least advisory, and it is the only state where the governor does not either appoint the members of the board of education, the state superintendent of public education or have an education official as part of the executive cabinet.

This makes it difficult, if not impossible, to effectively deal with education issues from the

executive branch. This is further exacerbated by two other factors. The first is that the teachers union is the single most powerful lobby in the Legislature, and the second is the fact that the election for state superintendent is a special election, which guarantees a low voter turnout. Essentially, this means that the teachers union has an extraordinary amount of power over who gets elected as state superintendent and therefore over education reform, or lack thereof, in this state. This must be changed if education is to improve in Wisconsin.

The fight to get the best teacher for your child.

For any parent with a child in public school, the annual frenzy around which teacher their child will get is all too familiar. What causes this annual angst? Teacher quality varies widely from classroom to classroom, and the quality of a teacher has one of the greatest impacts on student achievement.³ While parents know that teacher quality varies considerably, the system operates as though teachers are interchangeable widgets. However, there are countries where this frenzy doesn't occur—such as Singapore, Australia, Japan and the Netherlands, which have taken the bold steps to ensure high-quality teachers in every classroom. These countries recruit, select, train, and compensate teachers in a manner that holds teachers in higher esteem. Wisconsin should be willing and able to learn from them.

Many people don't even question why teacher quality varies so dramatically because

it is just accepted that this is and always will be the case. But it doesn't have to be. In fact, moving the state of Wisconsin forward again relies on *not* accepting the status quo but, rather, doing whatever is possible to change it. Even if you are not a parent, as a taxpayer and a resident of this state, you have a stake in having your tax dollars invested wisely in schools that uniformly produce a level of student learning that enables Wisconsin to be financially robust and civically engaged.

THE ARCHITECTURE OF TURN-AROUND

What can Wisconsin do to improve the level of teacher quality? The Strategic Management of Human Capital (SMHC) Project, headquartered at UW-Madison, studied what is needed to improve teacher and principal quality, examining the research and investigating promising practices in states and districts where achievement is improving. Its final report in 2009 offered recommendations for state policymakers, many of which are more fully articulated in the numbered sections that follow.

1. Set the bar (and the starting salary) high enough to get the right people to go into teaching.
2. Monitor the effectiveness of teacher preparation programs.
3. Get rid of the residency requirement in Milwaukee to help the district keep its most effective teachers.
4. Make it easier for smart people to teach who



come via alternative routes or from teacher preparation programs in other states.

5. Give state support to national organizations with proven track records to help put talented, energetic teachers into our high-needs classrooms.

6. Provide support to new teachers to ensure that their transition to heading a classroom is successful.

7. Ensure that professional-development funds are spent only on ongoing training directly related to changes in classroom practice that

promote higher levels of student learning.

8. Tie the tenure and licensure system to student performance.

9. Implement performance-based teacher and principal evaluations in Wisconsin, with student growth as a significant component.

10. Use scores from the new evaluation system as one component of a performance-based pay system; provide flexibility to raise the starting salary of top-level teacher candidates.

Can Wisconsin make these changes?

In a word: yes. Other states are doing it.

Colorado passed a bill tying tenure to teacher effectiveness. In South Dakota, the Incentives Plus program offers fiscal rewards to schools based on growth in student achievement. In Florida, the legislature voted to repeal tenure for teachers—the current governor vetoed the bill—but one of the candidates for governor is running on the same platform.

As these examples show, bolder education

policy is possible, but to make these sorts of changes here will require a bolder kind of leadership that may upset people across the political spectrum. It is going to require leadership that is willing to put the needs of all the state's children before the needs of its adults,

which hasn't been a politically popular move for liberals to make because of their longstanding relationship with the teachers union. And it is going to require leadership that makes difficult decisions about the allocation of resources,

in some cases prescribing the use of resources for evidence-based strategies rather than leaving all decisions to local school districts, which hasn't been a politically popular move for conservatives, because of their stalwart defense of local control.

Bold changes are needed in this state no matter who the next governor is, or which party controls the Legislature.

The following points offer more detail on how to make the changes necessary to improve Wisconsin's education system.

10 STEPS TO BOOSTING WISCONSIN'S SCHOOLS

1. Set the bar (and starting salary) high enough to get the best people to go into teaching.

To get top-level students to go into teaching in today's economy requires recruiting. This hasn't always been the case, which is why

it has not yet become standard practice. For the first three-quarters of the 20th century, teaching was bolstered and sustained by smart women whose career options were severely limited. One study of the changing labor market opportunities for women and the quality of teachers found that the likelihood that a female from the top of her high school class would enter teaching fell from 20% in 1964 to 4% in 1992—a precipitous drop.⁴

Today, because there are so many options besides teaching for high-ranking college graduates, many of which are much more lucrative and carry more status, it is necessary to make a concerted effort to redefine the profession and recruit smart, talented men and women from diverse racial and ethnic backgrounds.

Research shows that college graduates with above-average ACT scores tend not to go into teaching, with the effect strongest for elementary teachers and math and science teachers,⁵ who have better opportunities in the labor market. And while money may not be the primary teacher motivator, research shows that it can make a difference. According to one study, in order to attract top science, math and technology majors, an increase in salary of 45 percent would be necessary.⁶

Certainly, there is an argument to be made for raising teacher salaries to get higher-caliber teachers, but there's another piece of this puzzle not yet addressed: selectivity. Relying solely on potential future earnings to recruit

students into medicine, for example, without the stringent entrance requirements to medical school would likely mean a drop in the number of smart people going into medicine, and, in turn, the quality of health care.

So why has there been such hesitancy to raise the bar in education?

Besides not yet having come to grips with the fact that teaching is no longer being subsidized by smart women, some argue against raising the minimum GPA required to get into the school of education on the grounds that it would make

it harder to get the desired racial and experiential diversity that is beneficial, particularly in an urban setting. While there is no doubt that there are positives for students associated with having teachers with the same skin color as role models, along with teachers who truly understand the difficult conditions that many urban students face, there can be a tradeoff between meeting these goals and raising the bar. Rather than use these goals as a reason to maintain a low bar for entrance into the school of education—the state requires a minimum grade point average of only 2.5—why not raise the bar, the salary and the status of the teaching profession and make it easier to get top-level candidates of all races into teaching?

This could be accomplished by a state statute and would probably need to be in order to ensure that it happened across all teacher education programs. (Washington, D.C. recently passed similar legislation.) Immediately begin offering large bonuses to top math and science

“It is going to require leadership that is willing to put the needs of all the state's children before the needs of its adults...”



students who are willing to teach, and increase starting salaries, but only as part of the new performance pay system described below, so that salaries would continue to climb only for teachers who were effective in the classroom.

2. Monitor the effectiveness of teacher preparation programs.

Getting the right people into education is only part of the battle—the next part is ensuring that the training they receive prepares them for the classroom. For those who are trained through traditional routes, this means ensuring that they attend a high-quality teacher preparation program. Strangely, Wisconsin doesn't have a system to monitor the effectiveness of different programs. Louisiana has such a system. The groundwork for having one in Wisconsin has been laid out but not fully developed.⁷

Without such a system, it is difficult to make policy and funding decisions on the basis of quality.⁸

Wisconsin also needs to prepare more math, science and special education teachers—as well as students who are well equipped to teach in urban environments. Currently, Wisconsin prepares too many elementary teachers and secondary social studies teachers, and too few special education, mathematics, general science, technology and foreign language teachers.⁹

The Department of Public Instruction has been reluctant to take on such roles, but this should be put in place for the 2011-12 school year at the latest, and may require the involvement of a third party, outside DPI.

3. Make it easier for smart people to teach who come via alternative routes or from teacher preparation programs in other states.

Many promising teachers choose teaching mid-career, which is why it is important to make it easy for capable, post-bachelor's students to teach in Wisconsin. These people bring something to the classroom that teachers fresh out of college don't have: practical work experience.

Wisconsin currently has 10 alternative certification routes not including Teach for America and the New Teacher Project. However, these programs do not meet all of the requirements suggested by the National Council on Teacher Quality. For example, Wisconsin should allow alternative certification in non-high-needs fields—the 10 current programs are focused on fields and locations with shortages only.

Numerous bills have been introduced to loosen the process in this state, but the powerful teachers union and higher education lobbies have been successful at blocking them. Both the union and state teacher education programs have a vested interest in making sure that “alternative” routes look as much like traditional routes as possible.

Similarly, it is difficult for teachers trained outside Wisconsin to get certified to teach here. This barrier is keeping great teachers out of our classrooms, and its only purpose is to protect the state's teacher education programs.

4. Give state support to national organizations with proven track records to help put talented, energetic teachers into our high-needs classrooms.

Wisconsin has the most persistent black-white

achievement gap in the nation, driven by the low performance of minority students in Milwaukee. Other cities have made progress in raising minority test scores, largely through improving the quality of teachers placed in high-needs classrooms.¹⁰

It is time to admit that Wisconsin needs help from the same organizations that made these gains possible in other cities, which include Teach for America and the New Teacher Project. While this process has begun—last year Teach for America began working in Milwaukee, and the New

Teacher Project has worked with the district on a limited basis for the past few years—the district and the state have not fully embraced these programs. Three primary forms of support are required: monetary, leadership and regulatory/statutory.

Part of providing leadership could be achieved by providing financial support. By embracing an organization like Teach for America, the state would send a message that it is no longer business as usual in Wisconsin—that the status quo will not do, particularly in the largest urban districts.¹¹

So, why the reluctance? Here are a few reasons.

One is the desire, again, to protect the status quo of the teacher education and certification process, touched on in the last section. Another is the fact that Teach for America teachers' initial commitment to the classroom is only two years, which doesn't sit well with a lot of people. However, 61 percent stay for a third

year, which is close to the national average for teacher retention in any program, and 32 percent remain even longer. Remember, people tend not to stay in the same career anymore, so perhaps it is time to let go of the idea that teachers need to make a lifelong commitment. Finally, there is a tradeoff between high energy, high expectations for all kids for a short time and a more sustained, but perhaps less energetic and, yes, less idealistic approach of teachers in it for the long haul.

5. Get rid of the residency requirement in Milwaukee and help the district retain its most effective teachers.

Milwaukee, a strong union city, is the only district in the state that still requires teachers to

live within the city limits. Thus, it loses many more experienced teachers, who eventually may want to move out of the city for personal reasons but whose commitment to their classroom does not necessarily dissolve with their home purchase. Why is this policy in place? It consolidates the power of the teachers union and makes it much more likely that school board members will be voting in line with the union.¹² Although the Milwaukee teachers union perpetually has the residency requirement on its list of grievances, it has been reluctant to do anything to actually change it, as has the school board.

Make no mistake about it: Making dramatic progress in Milwaukee requires more teacher talent than just the fresh blood of Teach for



America—it also requires every possible expert teacher by allowing all teachers the freedom to live wherever they would like.

6. Provide support to new teachers to ensure that their transition to heading a classroom is successful.

The medical model has much to teach the education model. Medical residents are not allowed to perform surgery without a great deal of hands-on experience with an expert physician at their side—to ensure a high level of quality. Yet districts routinely place new teachers in classrooms without consistent access to expert teachers, which means students do not get the same quality of education they would get from an experienced teacher.

In Wisconsin, new teachers are required to have mentors, but how they work with these more experienced teachers is far from uniform. The state should require at least two years of support for each teacher, careful selection and training of mentors, and release time for mentors so that they can provide in-classroom support to teachers.

When asked if they favored the implementation of a residency program in Wisconsin, even after being warned that it would be expensive to operate, 48 percent said yes in the 2010 WPRI poll.

7. Ensure that professional development funds are spent only on ongoing training directly related to changes in classroom



practice that promote higher levels of student learning.

While pre-service training and new teacher support are critical to improving human capital in Wisconsin schools and getting better results, education leaders must not neglect the issue of ongoing professional development for teachers. Much money is spent, and much of it is wasted, on professional development activities that do not change teachers' classroom practice and therefore do not affect how

much students learn. Currently, principals decide what constitutes a valid use of professional development time and money rather than a stringent set of requirements to ensure that these precious resources are spent in

ways that ultimately benefit students. The state needs to develop such requirements, and they should include the need to use these resources to provide teachers with collaborative planning time during the school day and instructional coaches to provide ongoing, hands-on assistance so that teachers can improve the quality of classroom instruction.

8. Tie tenure and licensure system to a demonstration of effectiveness in the classroom.

Why is there tenure for public school teachers? In academia, tenure is granted only after performance is demonstrated and rigorously assessed. What's more, it has a purpose: to protect the intellectual freedom of professors. The purpose is harder to articulate for K-12 public school teachers. Wisconsinites agree: only 34

percent favor offering tenure to teachers, according to the 2010 WPRI poll.

The state could, in a bold stroke of leadership (which would require cooperation between the Department of Public Instruction, the governor and the Legislature), announce that in this state, from now on, teacher tenure (or its equivalent, the continuing contract) would now only be granted when teachers demonstrate effectiveness in the classroom using an objective measure of student performance. Making this change would better align policy with public opinion in Wisconsin. When asked if they believe that tenure should be tied to teacher performance as measured by student progress on standardized tests, 56 percent of Wisconsin residents surveyed said yes.

Other alternatives include abolishing or reducing state aid to school districts that continue to have tenure protection in their contracts and that do not have a performance-based compensation system such as the one described below.

While widely protected by the teachers union, support is even present among teachers for ending tenure. According to a national poll by Public Agenda (2009), 35 percent of teachers said they believed that eliminating teacher tenure would be either very effective or somewhat effective in improving overall teacher effectiveness.

9. Implement a performance-based teacher and principal evaluation in Wisconsin that

requires student growth as a component.

Currently, teacher and principal evaluations in Wisconsin are left to local districts, and as is true of most evaluation systems around the country, they do not include a measure of student growth on standardized tests. As such, they do not differentiate between teachers who are performing well in the classroom and those who are not.

Such a system is required to figure out the effectiveness of teachers and principals. The cost of not having a system of performance-based teacher evaluation that is rigorous enough to be used for policy decisions is exemplified by the current situation in Milwaukee.

Because of budget cuts, the district has recently laid off 482 teachers. The teachers who were laid off were not the lowest performers, and they weren't the most expensive, or even the most expensive low performers, which would make the most sense. *The layoffs were decided entirely on the basis of seniority, which means that some award-winning, and relatively cheap teachers were let go, while some less effective and much more expensive teachers were retained.*

This is not a recipe for moving forward in Milwaukee or in any other district in the state using the same process. But there are alternatives. There are numerous places implementing evaluation systems that require student growth as a significant component—Washington, D.C.'s system counts student performance as 50 percent in its new evaluation system; Colo-

“Making this change would better align policy with public opinion in Wisconsin.”

rado recently passed a law saying that student performance would constitute 50 percent of its new evaluation system.

Evaluations of teachers need to be multifaceted. In order to be fair, they must include multiple classroom observations scored by an objective third party, student test scores and student work.

Having such a system would also make it much easier to garner the support needed to pass a law that would make it possible to dismiss ineffective teachers on the basis of performance. A poll by Public Agenda (2009) found that 76 percent of teachers believe making it easier to dismiss ineffective teachers would increase overall teacher effectiveness. This is encouraging, and suggests that even among teachers, there is support for policies with more teeth.

A study by one researcher found that the effects of implementing a system that could differentiate between high- and low-quality teachers *and* at the same time be used to weed out the low-quality teachers found that getting rid of the bottom 5-10 percent of teachers in U.S. schools would put us on par with Canada in terms of teacher quality, a country the U.S. currently trails in this category.¹³

10. Use scores from the evaluation system as one component of a performance-based pay system.

In many other professions, people don't get paid more because they've been employed the longest or because they've gone back to school, unless those efforts make them better at their jobs. But the current salary schedule rewards teachers for time in the classroom and "seat time"—acquiring additional credits and

degrees—neither of which is demonstrably correlated with better student performance.¹³

Wisconsin teachers and principals need a new pay system that recognizes that more effective teachers deserve to be paid more. By applying this simple principle, it becomes much easier for young or new teachers who are highly effective to quickly make a higher salary. This will make it much more likely that effective teachers stay in the classroom.

So why haven't teacher pay reforms taken hold in Wisconsin?

Once again, teachers unions are generally opposed to any changes in teachers' pay, unless they come in the form of higher salaries or better benefits for *all* teachers. As is the case in any other profession, all teachers are not equally deserving of additional pay. This is one of the many reasons to reform the traditional salary schedule.

Plus, there is significant public support for such a change in Wisconsin. Recent poll results, as well as poll results from 20 years ago, show broad public support for performance-based pay: 77 percent in 2008 and 76 percent in 1988 of residents favor changing the way teachers are paid. In a 2010 survey, residents were specifically asked if they supported tying teacher salaries, in part, to the performance of their students, and more than half—53 percent—favored such a proposal. The new evaluation system discussed in the last section could form the basis of a new pay system and become part of a coherent agenda to improve the human capital in the state's schools.

Wisconsin could take a page from President Obama's book and tie reform to money. If the new governor eliminated residency

requirements, dismantled tenure and adopted performance-based pay...and local districts still refused to conform, why not hold back state funds by five or even 10 percent? This money could be held in escrow until the locality conforms. If, in order to solve the problem, bold steps are needed, there is nothing that catches people's attention more than holding back funds.

IN SUM...

What's needed in this state to move education, and the economy, forward is to get the right people into teaching, train them well, support them in the classroom, ensure that they have capable school leadership, measure the performance of both teachers and principals by the growth in achievement of their students, reward high performers with competitive pay, and remove low performers from our classrooms.

This can be done, but not without consciously raising the level of state leadership on education issues, fully understanding our current system, emphasizing the need to put students first, and having a statewide organization where citizens can learn about public education issues and get information about schools, such as value-added scores, so that they can see how effective different schools are.

Wisconsin has a history of leading the nation in ideas and innovation. The next governor of this state has the opportunity to bring that trademark back when it comes to educating our children. True, it will take bold leadership to go up against seemingly immovable forces. The next governor should keep one thing in mind: Those forces are, indeed, movable, and the majority of Wisconsinites will back him or

her up in this endeavor.

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WPRI polls—2008 and 2010.

Endnotes

¹ Calculated on the basis of an average teacher salary of \$48,000 plus \$25,000 fringe benefits (Wisconsin Department of Administration 2009 figures).

² Though unsuccessful, the bid to implement mayoral governance in the state's largest school district may have been the best bet to sustain a long-term improvement agenda that included elements that an elected school board may not have allowed.

³ Rockoff, 2004; Sanders & Rivers, 1996; Wright, Horn & Sanders, 1997.

⁴ Corcoran, Evans & Schwab, 2004.

⁵ Podgursky, Monroe and Watson, 2004.

⁶ Research spanning 30 years in Great Britain shows that the relative wages for teaching compared to other professions have a significant impact on the likelihood of graduates choosing to go into education (Chevalier, Dolton & McIntosh, 2007). The authors find that this effect is present for both sexes but stronger for males, as did a similar study conducted in the U.S. (Han & Rossmiller, 2004). A study of female teachers showed that higher relative wages effectively attract female college graduates into teaching (Shin & Moon, 2005) and a broader study of female labor market participation had the same finding (Dolton & Makepeace, 1993).

⁷ Legislation passed in preparation for Wisconsin's Round 1 bid for Race to the Top established a data-sharing agreement between the UW System, the Technical Colleges, the Department of Public Instruction and the private schools, which would allow these sorts of analyses. In addition, UW-Madison signed on to the Teacher Performance Assessment Consortium, which will involve testing a tool that can be used to monitor the effectiveness of teachers in the classroom, and therefore the effectiveness of the programs that train them.

⁸ Research shows that teachers' verbal and mathematical skills are strongly related to student outcomes (Ehrenberg, & Brewer, 1995; Ferguson & Ladd, 1996), and data from the UW System shows that ACT scores are significantly higher for education students at UW-Madison (26.1) compared to education students at other UW System schools (22.7).

⁹ Fischer, T. A., and Swanger, W. H. (2008). Data Trends of Education Personnel in Wisconsin Public Schools, 2007. <http://dpi.wi.gov/tepd/supdem.html>.

¹⁰ Boyd, Lankford, Loeb, Rockoff & Wyckoff, 2008.

¹¹ Teach for America teachers are getting results. On average, TFA teachers in Milwaukee Public Schools' classrooms achieved between a year and a year and a half of reading growth with their students in their first year, compared to national and local averages of .3-.5 years of reading growth for low-income students. More rigorous studies have been conducted in areas where TFA has been working longer, such as the national study by Mathematica showing that TFA teachers tend to be slightly more effective math teachers than other new teachers in similar schools and about equal at teaching reading (Decker, P., Mayer, D., and Glazerman, S., 2004).

¹² Schug & Niederjohn, 2006.

¹³ Hanushek, 2009.

¹⁴ With the exception of experience, which tapers off after the first three years (Wayne and Youngs, 2003).

MAYBE ELVIS SHOULD HAVE STAYED IN THE BUILDING.

BY ALAN BORSUK

Alan Borsuk compares the public schools of Milwaukee and Boston—two cities with similar problems. But one faced those problems with innovation, while the other seemed to fight any kind of change. The results are, sadly, not in Wisconsin's favor.

A decade ago, opposition mounted to a Wisconsin law adopted several years earlier calling for creation of a test that all students would have to pass to receive a high school diploma. Testing experts were well along the road of developing the test when, buffeted by critics, particularly suburban Milwaukee moms, the graduation requirement began having a series of near-death experiences. One person who was central to the events started privately calling the test “Elvis”—Elvis has left the building, Elvis is back in the building, Elvis is hanging around the door.

Finally, in the name of budget cuts, Elvis left for good. The high school graduation test was dropped.

There were certainly valid arguments for and against the graduation test, and there's no reason to think anyone is going to revive it now.

But the death of the graduation test stands as a forceful illustration of the difference between the paths taken in Wisconsin and those taken in several other states over the last 15 to 20 years.

To put it simply, Wisconsin showed little muscle when it came to motivating students, teachers or schools to achieve ambitious academic goals. Instead, it set its academic bars low and attached no particular importance to whether students reached those bars, especially not until federal law entered the picture. Its efforts to maximize the percent of teachers who are top-flight professionals barely rate mention, compared to efforts in a growing number of other places that were—and are—more ambitious and focused on outcomes.

Now, contrast Wisconsin to other states, which took the theory of creating higher standards and accountability far more seriously. Their definitions of “proficient” were decidedly more demanding. They put an emphasis on how to improve teaching and learning. They created consequences for not succeeding—consequences such as assigning schools grades for overall achievement that could affect their enrollment or bring them positive or negative financial sanctions. There were also consequences for

students, such as not allowing them to be promoted from certain grades or to graduate high school until they showed they were able to perform at least at some level of competency.

The contrast shows up strikingly in the achievement trends in at least some cases. Wisconsin’s results have been flat overall since the early 1990s, while states such as Florida, Kentucky, and Massachusetts have seen significant improvement.

The lessons from these contrasts are clear: If Wisconsin is to get on the upward path of achievement, it is going to need genuine commitment to putting muscle and weight behind state standards and expectations. It is almost inevitable that it will need a level of political and educational leadership that has been shown by few key players in recent years. And Wisconsin is going to need to take two currently fashionable terms very seriously: *relentlessness*, as in an urgent and deep commitment to seeing a much larger number of children reach high goals, and *fidelity*, as in setting a solid course and sticking with it in high-quality ways over a long period.

Massachusetts provides a particularly striking comparison to Wisconsin. Tangible steps, intangible elements, and positive outcomes—the Bay State has done better than the Badger State on each. There are plenty of issues to work on in Massachusetts and plenty of problems. But if you’re looking for progress and a place that offers good lessons to Wisconsin, heading to Boston is a good idea.

There are significant ways that Massachusetts and Wisconsin are comparable. Total population is not much different (6.6 million in Massachusetts vs. 5.7 million in Wisconsin). Neither state has an abundance of resources such as natural energy. Both states face economic challenges because classic heavy industries have faded. Both states have a single dominant city, one with a history of difficult race relations that became entwined with education.

With Harvard and MIT, and numerous top-tier colleges, Massachusetts outclasses Wisconsin when it comes to universities, but both are states with identities strongly linked to higher education.

Boston and Milwaukee schools systems also have similarities. Boston Public Schools is actually smaller than Milwaukee Public Schools—56,340 students in 2009-10, compared to 82,444. The Boston system is 13% white, Milwaukee 12%, with Hispanics making up a larger portion of the student body in Boston (39%) than in Milwaukee (23%). In Boston last year, 37% of students were African American, compared to 57% in Milwaukee.

Just 15 to 20 years ago, Massachusetts and Wisconsin were fairly even when it came to student achievement, gauged by performance of students on the National Assessment of Education Progress (NAEP) tests, which are the closest thing the nation has to an apples-and-apples basis for comparing performance across time and from state to state.

In 1994, a sample of fourth-graders in

*“... Wisconsin is going to need to take currently fashionable terms very seriously: **relentlessness and fidelity**...”*

Wisconsin had an average score in reading on NAEP tests of 224 (on a scale of 1 to 500). The Massachusetts score was 226, a minor difference. The nationwide average was 215, significantly below either state. But by 2009, the scores of Massachusetts’ fourth-graders had risen eight points, to 234, a notable sign of progress. In Wisconsin, the score had dropped to 220, and the gap between the two states had become substantial. Furthermore, the national average had risen to 220, the same as Wisconsin’s score.

In eighth-grade math, Wisconsin (average score 278) led Massachusetts (at 273) in 1992. The national average then was 267. By 2009, the average Massachusetts score had risen 26 points to 299, while the Wisconsin score had gone up also but by only 10 points to 288, putting Massachusetts ahead by a sizeable 11 points. The national average had increased more than Wisconsin’s as well ... by 15 points and now just six points lower than Wisconsin’s score, compared to a 15-point difference in 1992.

In other words, Massachusetts had moved forward substantially. In fact, the state has led the nation consistently in fourth- and eighth-grade reading and math scores since 2005, a huge accomplishment given its middle-of-the-pack performance in prior times. A *New York Times* story in July 2010 said, “many regard [Massachusetts] as having the nation’s best education system.”

In the meantime, Wisconsin’s standing slipped compared to the nation. Although it still prided itself as a high-achievement state, the record suggested a label of “somewhere in the middle, and trending downward.”

As for Boston and Milwaukee, test results

in 2009 underscored the large gap in performance. For example, among 18 urban districts that participated in NAEP testing, Boston (average score, 257) came in above the national urban average (252) in eighth-grade reading, while Milwaukee (241) was fourth from the bottom. In eighth-grade math, the results were more striking: Milwaukee scored far below the other urban districts (251, the second lowest among the 18 districts). The national average was 271, with Boston at 279.

Add on a few other indicators: Boston was a finalist in each year from 2002 through 2005 for the high-profile Broad Prize for Urban Education, which recognizes performance and improvement, and it won in 2006, hailed by the judges for “consistent high performance while reducing achievement gaps across ethnic groups.” Milwaukee has never been a finalist.

Massachusetts decided to sign on to the national “common core” standards movement after intense debate about whether the new standards would be lower than what was in place at the time, while Wisconsin Superintendent of Public Instruction Tony Evers said he signed on without hesitation because the standards were such a clear improvement over what was in place.

So what explains the successes in Massachusetts and Boston?

There is nearly universal agreement that the key is “the grand bargain” struck in the Bay State’s legislature in 1993.

The ambitious agreement was the product of a confluence of favorable circumstances and visionary, bipartisan leadership, along with strong involvement from business and civic leaders. At heart, it was a simple deal: Give schools more money and demand better

results.

Thomas Birmingham, a key architect, said the two pieces were inextricably linked. Birmingham, at that time Democratic president of the state Senate and now a lawyer in private practice, said in an interview, “If we took the money out, the standards piece was just going to be an exhortation.” But, he added, if it was just a matter of adding money without demanding high standards, there would have been no real change.

A multibillion-dollar infusion of state aid to schools righted inequities between have- and have-not school districts that had reached severe levels—and which everyone expected (correctly) would be found illegal in court about the time the legislature acted. The new system resulted in high-poverty districts around the state (not just in Boston) spending more money per student than high-income districts. Per-student spending in Massachusetts is now among the highest in the nation.

But perhaps more importantly, along with the money came one of the nation’s most rigorous sets of standards for what children were expected to learn, and a demanding state testing system, the Massachusetts Comprehensive Assessment System (MCAS). The key was the requirement that students pass the high school MCAS by performing at least at a level associated with a 10th-grader (which is itself a lower bar than in previous generations).

The bargain also called for teachers to demonstrate competency in their subject areas before being allowed to take over a classroom. When just under 60% of the applicants for teaching licenses failed the test the first time it was given in 1998, the result caused a national sensation—but also led to major changes in

the way teacher training programs in Massachusetts did their work.

The bargain also provided for steps that received less attention but which insiders say were crucial to improvement. Local school committees, the equivalent of Wisconsin’s school boards, lost much of their power to meddle in school affairs, including hiring. Superintendents statewide got stronger, clearer roles in leading the educational initiatives.

In Boston, principals lost the right to tenure in their jobs and to collective bargaining as a unit. Thomas Payzant, superintendent of Boston from 1995 to 2006, said in an interview that those provisions were more important to him than just about anything else in the bargain. He said he used his power to significantly improve the corps of principals, and that was a key to overall improvement. (Wisconsin’s Legislature followed suit 17 years later by including an end to principal tenure in Milwaukee in a reform bill passed in April 2010.)

When the MCAS was first administered in 1998, the results were “decisively disappointing and even a little frightening,” as a report on Massachusetts’ success by Achieve, an education non-profit, put it. But education leaders did not waver. They held firm, and after that scores began to rise—and opposition declined.

But with the implementation of the 2002 graduation test, opposition grew. Unlike Wisconsin, Massachusetts state leaders such as David Driscoll, the state education commissioner, strongly defended the plan. He said it took awhile for many people to realize that “we obviously weren’t kidding around in Massachusetts.” He and other test supporters prevailed. Wisconsin’s leaders showed no such fortitude.

In the first round of graduation testing that counted, only about 60% of juniors qualified to pass. But tutoring was made available for free to students who needed it, and they were allowed as many tries at the test as they wanted. In the end, more than 90% passed. In recent years, 90% to 95% of students have met the graduation requirement.

Driscoll said that when the reality of the test hit, “there were no excuses any more.” Schools, teachers, and students themselves found they could achieve more than expected. “When we want to, we can move mountains,” said Driscoll, who is now chair of the National Assessment Governing Board, which runs the NAEP testing program. “We don’t expect a lot of our kids, and that’s wrong.”

Paul Reville, who played a major role in shaping the 1993 bargain, is now state secretary of education. In an interview, he said the bargain is “in very good shape.” He added, “We have put our money where our ideals are in terms of education.” But he said continuing issues such as major achievement gaps between white and black students call for new steps such as extending the amount of time children spend in school, offering better early childhood services to high-needs children, and more efforts to improve teaching.

Critics such as Jamie Gass, director of the Center for School Reform for the Pioneer Institute, a conservative-oriented think tank in Boston, are critical of Reville and his boss,

Gov. Patrick Deval, for what they view as efforts to dismantle aspects of the bargain by softening standards and accountability and politicizing the educational bureaucracy. Gass said Massachusetts has carried out education reform well, “but it’s been a knife fight.” He said that if the 1990s were the golden era for change in the state, the current period is “the aluminum era.”

But the basic structure remains in place, and the progress in Massachusetts is documentable in numerous ways.

Meantime, what has happened in Wisconsin? There’s been a lot of action, but not much that can be shown to have improved student achievement. Reforms in Wisconsin often have been focused on structural or program changes, but rarely on meaningful action aimed at improving learning.

Consider the remarkable research paper by Christopher P. Brown, now a professor at the University of Texas at Austin. Even just its title—“Keep It Cheap, Keep It Local, and Keep It Coming: Standards-based Accountability Reform in Wisconsin”—says a lot about Wisconsin’s weaknesses in tackling education issues since the mid-1990s.

Brown wrote that the emphasis on local control, the absence of a state school board (Wisconsin is one of only two states without one), and the active and highly political role of the Legislature in setting education policy create a climate where accountability reforms are hard to launch or sustain.



Brown wrote, “Wisconsin’s resistance to systemic changes forces policymakers to reduce their agendas from dramatic changes to gentle nudges.” He compared the proliferation of education initiatives in Wisconsin to an overgrown weed patch.

The three biggest initiatives in Wisconsin education in the 1990s and 2000s all proved popular—and didn’t produce any real improvements in overall student performance. None were directly aimed at improving instruction or motivating students the way Massachusetts’ standards and MCAS testing system were.

The three are the SAGE program to keep down class size for thousands of lower-income kindergarten-through-third-grade students; school choice initiatives, including charter schools across the state and the Milwaukee Parental Choice Program, which allows students in Milwaukee to attend private schools, including religious schools, using publicly funded vouchers; and the reform in the mid-1990s of school finance, which increased the percentage of basic school costs covered by the state while putting brakes on increases in school spending and compensation for teachers.

Research has shown only modest gains, at best, associated with SAGE, and that student performance in voucher schools does not differ significantly from MPS. On class size alone, it should be remembered that countries with much larger class sizes (40 students) have some of the highest math scores in the world. The school finance reform appears to have

helped keep down property taxes statewide, but, in the view of many educators, has, if anything, hampered educational quality.

Along with the failure of the graduation test to get off the ground, Wisconsin had a set of other non-accomplishments in the 1990s and 2000s. It was repeatedly criticized by

experts from a range of educational perspectives for having one of the weakest sets of state standards for what students were expected to learn. A study by researchers from the Northwest Regional Educational Laboratory, based in Portland, Oregon, found Wisconsin was near the bottom of the nation when

it came to how challenging the required level of competence was on state tests in order for students to be rated proficient.

In an interview, Chester E. Finn Jr., president of the Thomas B. Fordham Institute, an educational think tank in Washington, listed the elements of Massachusetts’ success—the standards, tests, overall accountability—and said, “To the best of my knowledge, Wisconsin has lacked all of those things so far.”

He also said it appeared leadership on educational issues has been lacking in Wisconsin, at least since Tommy Thompson departed as governor in 2000.

“You don’t need leadership if you want to steer a steady course,” Finn said. “To try to change course, you need leaders . . . willing to take the risks and pay the price, deal with the fallout of making changes.”

Massachusetts considered itself a strong

“To try to change course you need leaders...willing to take the risks and pay the price, deal with the fallout of making changes.”

local-control state, but came up with a state-engineered system that reduced local power and drove improvement. Wisconsin should do likewise, Finn said. What would he say to those who argue for local control? “Tough bananas,” Finn said. “Does the state care whether its kids are learning or not?” If so, it will not only adopt the nationwide core standards, but move firmly to see that teachers are actually shaping their work to follow them and that a state testing system is created that measures success meaningfully.

Driscoll said the new standards offer “a great opportunity” for Wisconsin to get on a path similar to the one Massachusetts has followed—but he echoed Finn in saying that was true only if what follows from adopting the standards is done well.

What can educators learn from what has been accomplished in Massachusetts? Education Secretary Reville suggested three answers: (1) The power of leadership, both private and public, to make education a component of a state’s economic strategy. (2) “The need to concentrate more deliberately on improving the quality of instruction.” (3) The need to focus on factors that impede students from taking advantage of even a maximal situation.

Driscoll cautioned against going too far in lionizing what has been accomplished in Massachusetts. “While we lead the country, we’re the best of a poor lot,” he said. “We’ve still got a long ways to go.”

What Massachusetts has done right in large part involves intangibles, namely, leadership, an urgent commitment to do better, and solid policy thinking. People from different parts of the political spectrum were able to come together around plans in line with those realiza-

tions, and they’ve stuck to them consistently, even when there was strong opposition.

Can Wisconsin and its leaders summon those attributes? Does the arrival of new state standards signal a willingness to effectively pursue what the standards call for and to push everyone involved in education, including teachers, students, and parents, to achieve more?

Driscoll said, “The question to be asked is, if we were so successful, and I think that’s indisputable...why weren’t states knocking my door down asking how to do it?”

In today’s economic realities, throwing a lot of money into the education pot is almost surely not feasible. But what could be done if there was really a sense of urgency about the state of education in Wisconsin, or if legislators, union leaders, and others were willing to look realistically at fiscal changes that could open the doors to change? What if it was agreed that it was unacceptable for Wisconsin’s academic trends to stay flat while other states improved and passed us up? And finally, if Wisconsin’s poor record does not elicit a sense of urgency, when should that come?

It appears that if you set the bar low, students will jump over a low bar. And if you set the bar much higher—if you demand more from them—they just might meet and even surpass expectations. Add to that new political leaders who would be willing to take strong stands that might not be popular with entrenched establishments in the state’s education system and stand by them. If money is not available to throw at the problem, there are always alternatives.

Who says it’s not too late to knock down Driscoll’s door? Maybe some handsome version of Elvis is on the other side.

PUBLIC EDUCATION IN WISCONSIN: FACING REALITY

— BY ROSE FERNANDEZ —

Rose Fernandez describes what is possible when we loosen the restraints and create a real and vibrant educational marketplace. Most importantly, polling done for Refocus Wisconsin tells us that the people of Wisconsin want more of a market orientation in Wisconsin's education landscape.

Wisconsin, we have yet another problem.

For decades, Wisconsinites have basked in the certainty that our public schools are the envy of other states and do an outstanding job of preparing students for productive lives.

In truth, we have been on a long slide into mediocrity, even though Wisconsin taxpayers have doubled their financial support for education since 1983, the year that a major report sounded the alarm about American education.

“If an unfriendly foreign power had attempted to impose on America the mediocre educational performance that exists today, we might well have viewed it as an act of war,” said the introduction to *A Nation at Risk*.

Two years later, a report on public schools in metropolitan Milwaukee showed poor performance in the Milwaukee Public Schools (MPS) and significant achievement gaps among area students. This stunned many community leaders, who had been assured by MPS officials and a passive news media that students were performing “at or above average.”

A coalition of business leaders and parents responded by backing reforms to give parents more freedom to choose. As a result, Milwaukee parents now have more educational choices than other Wisconsin parents. And they've exercised that option by voting with their feet. Tens of thousands of them have left MPS for private and charter schools and nearby suburban school districts.

School choice has produced improved graduation rates and highly satisfied parents. But MPS continues to fail too many children. To make matters worse, it is very nearly bankrupt. Unchecked, MPS obligations will put Milwaukee and state taxpayers on the hook for billions of dollars at a time when state and local governments are struggling with deficits and unfunded liabilities of their own.

Taxpayers in Milwaukee and the rest of the state know that MPS is in trouble.

But the WPRI poll conducted for this project shows that when it comes to the rest of the state, Wisconsinites—like the good people

of Lake Wobegon—think all the children are above average.

This dangerous and damaging illusion has persisted for too long.

The fact is that while state tests purport to show high levels of proficiency in reading and math, the National Assessment of Educational Progress (NAEP) tests, commonly referred to as the nation's report card, show that far fewer than half of Wisconsin's fourth- and eighth-graders are proficient in math and reading.

Wisconsin can reverse this decline. The first step is to shake off the complacency that all is well. Our citizens deserve an honest and long overdue explanation of where our children really stand. We need to face the reality that we need radical change.

The second is to embrace reforms that work. Parents need more educational choices. When dollars follow children, and parents can choose the schools best for their children, we will provide incentives for all schools to improve. When educators are free to innovate, we will move beyond the bureaucratic structures that impede progress.

The third is to make more effective use of scarce resources. More money is not an option, nor is it a solution. But Wisconsin can be a leader in the innovative use of technology by removing barriers and providing incentives. This will help urban and rural districts and charter, virtual and private schools make better use of scarce resources.

So here is a blueprint for real reform. Our new governor—whether Democrat or Republican, state legislators, and parents should seriously consider these steps if they want Wisconsin's children to have any chance in the increasingly complex global economy that is their future. This will have a direct bearing on the future of this state.

First, the problems

Milwaukee is the canary in the coal mine for the rest of the state. Student scores in reading and math as measured by the National Assessment of Education Program (NAEP), the national yardstick of academic attainment, are lower than in any other urban area except Detroit.

Milwaukee students who do graduate are too often unprepared for college. Between 2004 and 2009, 69 percent of MPS graduates that enrolled at the University of Wisconsin-Milwaukee (UWM) required remedial courses before they could begin their post-secondary education. More troubling, fewer than 20 percent of MPS graduates who entered UWM between 1998 and 2003 earned diplomas within six years.¹

This is not the fault of taxpayers, who have been generous to MPS. Last year, per-pupil spending was \$15,374, up 87 percent in real dollars since 1977. This compares to taxpayer support of \$6,442 for students in the Milwaukee Parental Choice Program (MPCP) and \$7,775 for students in independent charter schools.

“...Wisconsin can be a leader in the innovative use of technology by removing barriers and providing incentives.”

Despite this substantial increase in taxpayer support, the fiscal condition of the district is not sustainable. This is because MPS school boards have approved major increases in benefits for teachers and retirees but have failed to fully fund them, despite warnings from actuaries and auditors. The growing cost of these unfunded liabilities forces annual education program cuts. It is a cycle that cannot be sustained and will only get worse.

As the WPRI poll shows, citizens know that Milwaukee has problems, but they believe all is well elsewhere.

The Wisconsin state tests do much to encourage that myth. In 2009, the Wisconsin Knowledge and Concepts Exam showed that about 80 percent of Wisconsin fourth- and eighth-graders are proficient or above in math and reading.

These results are a disservice to Wisconsin. They reflect low expectations and standards that have been assailed by numerous independent studies.² Indeed, the NAEP tests show that *far fewer than half* of Wisconsin's fourth- and eighth-graders are proficient in math and reading. Making matters worse, national NAEP comparisons since 1990 show that Wisconsin children are losing ground compared to other states.³

Other common indicators such as the ACT college entrance exam also give Wisconsin families a false sense of comfort. While Wisconsin consistently does well on the ACT, only 57 percent of Wisconsin students actually take the test. The rates of participation and scores are starkly lower for minority students.⁴



Fixing the broken wheel

Providing more educational choices for parents is a critical part of the answer in Milwaukee and elsewhere in the state.

Despite its limits, the Milwaukee Parental Choice Program (MPCP) in Milwaukee has already shown success in the form of higher graduation rates, increases in academic achievement, and high levels of parental satisfaction. In addition, enrollment in the limited charter school options in Milwaukee and the rest of Wisconsin has grown consistently.

This report recommends creation of a more vigorous educational marketplace in Wisconsin by:

- Dramatically increasing the number of public and private chartering authorities.
- Lifting caps on enrollment in virtual and other charter schools.
- Lifting enrollment and income caps on the MPCP.
- Allowing education dollars in Milwaukee and elsewhere to follow students on a more equitable basis.
- Providing a tax credit for families that wish to enroll their children in private schools.
- Simplifying the open enrollment process that parents use to enroll their children in schools outside their resident district.

Notably, WPRI polling shows that Wisconsin residents favor more educational options, including charter schools, tax credits, taxpayer support for online courses taken for credit, and private school choice.

More educational choices will produce greater benefits if they are buttressed by moves to make Wisconsin a leader in innovation. Technology can help transform education for public, private and charter schools, giving educators the ability to do more with less and giving students access to more options.

Innovation is critical. Education has been notably impervious to the revolutionary changes in other aspects of our lives, including social networking, computing, communications, travel, banking, and many other industries.

If we want such progress in education—and we surely need substantial progress to compete globally—we need to open doors to more educational choices and more innovation.

Finally, we need to address the major fiscal issues in Milwaukee. Left unattended, these problems will consume more and more resources that will be unavailable to educate children.

Repairing education in Milwaukee

For more than three decades, beginning with the 1976 federal court decision involving integration, the Milwaukee Public Schools has been the target for reform.

There have been strategic plans, blue ribbon commissions, new superintendents, and elected school board members from across the political spectrum.

The reform efforts, and the officials who

oversaw them, have been backed by a huge investment of state taxpayer dollars. MPS real spending since the 1976 Reynolds decision has increased by 36 percent despite a reduction in enrollment of over 20,000 students.⁵

One word sums up the result: Failure.

MPS as now structured is impervious to the kind of accountability that might lead to any real change.

Academic achievement remains far too low. As mentioned earlier, students in MPS score lower on the NAEP reading and math tests than every similar urban district across the country except Detroit.⁶

This fact is more troubling because the United States trails other developed nations on international assessments, particularly in math, despite high levels of per-pupil spending.⁷

Less well recognized is the fact that the district's fiscal condition seriously threatens its sustainability. Unfunded liabilities for health insurance for retirees for 2009-2010 are estimated at \$2.6 billion—more than twice the MPS annual budget! And that's the good news. That number is projected to grow to \$4.9 billion by 2016.⁸

While MPS has made some academic gains in an era of parent choice, particularly in the area of graduation rates, those gains are insufficient and do not represent the progress needed to educate children in Milwaukee.⁹ But the district still cannot accomplish a basic task like teaching children to read in all too many cases, despite the loss of thousands of students

“...students in MPS score lower on the National Assessment of Educational Progress reading and math tests than every similar urban district across the country except Detroit.”

to private and charter schools.

MPS is not alone. Education at the K-12 level has been notably impervious to the kind of change that has revolutionized almost every other industry in America. This is because, as several influential authors argue, innovation tends not to occur in massive and entrenched bureaucracies or in highly standardized and regulated environments. Innovation happens in small and nimble start-ups.¹⁰

That kind of progress in education requires a climate where innovation is encouraged, barriers are removed and customers can choose the services they want.

A NEW VIEW OF EDUCATION IN MILWAUKEE

The goal of this proposal is the creation of a vibrant educational marketplace where all parents throughout the state and especially in Milwaukee have a wide range of choices: charter and private schools; virtual schools; supplementary online learning opportunities; and other schools that meet highly specialized needs.

In this environment, dollars follow students to the schools chosen by their parents, who are able to make comparisons using easily accessible information. Educators also have choices, including persons who may not meet current licensing requirements for public school teachers and administrators but have much to offer students.

In this environment, numerous charter authorizers are able to compete and open schools that offer a wide range of options for Milwaukee's diverse body of students. Increasing the number of charter authorizers promises to spur the creation of college preparatory schools as well as programs that lead to added vocational training, help for students with special needs, and specialized programs in math and science.

MPS should become an active and successful authorizer of charter schools opening opportunities for academic achievement rather than an operator of a centralized bureaucratic school system unresponsive to the needs of its customers. The district must either choose to resolve—or be forced to resolve—its academic and fiscal problems.

Putting Milwaukee on track

It is likely that the state will need to compel MPS to address its fiscal issues. For more than 20 years, MPS school boards have made decisions that allowed the district's unfunded health insurance liabilities to balloon from \$202 million to \$2.6 billion.¹¹ These decisions cost all Wisconsin taxpayers dearly. The state, however, has its own fiscal problems, and it is clear that taxpayers lack the capacity to meet all obligations.

To ensure resolution, the state should enact a provision that permits municipalities, including school districts, to file for bankruptcy under Chapter 9 of the federal bankruptcy

code, which permits a bankruptcy judge to re-order obligations. Twenty-six states, including Wisconsin, do not have a provision allowing municipalities to file for bankruptcy. If MPS were able to develop an acceptable plan, then such legislation would not be needed. Further, district bankruptcy will force MPS to deal with its unused capacity problem by making shuttered schools available to charter and private schools.

Milwaukee Parental Choice Program

The Milwaukee Parental Choice Program (MPCP) is the nation's oldest and largest market-based urban education reform. While groundbreaking in its scope, the MPCP is nonetheless short of a test of a true education marketplace.

Despite its limitations, the MPCP has a positive impact on attainment in Milwaukee. Most notably, graduation rates for students in the Milwaukee Public Schools (MPS) between 2003 and 2008.¹² To put it another way, if MPS graduation rates had matched those of the MPCP, 3,352 additional Milwaukee students would have received diplomas between 2003 and 2008. Ongoing research by the School Choice Demonstration Project (SCDP) has also confirmed the findings of earlier studies that students in MPS most exposed to school choice competition experience test-score gains.¹³ In other words, even an imperfect school marketplace has been shown

to increase attainment for choosers, and test scores for non-choosers.

In addition, the SCDP found that school choice in Milwaukee saves Wisconsin taxpayers over \$30 million annually.¹⁴ Findings are confirmed by Wisconsin Legislative Fiscal Bureau reports chronicling the negative impact of ending the MPCP on school districts outside of Milwaukee.¹⁵

The positive academic, fiscal, and satisfaction effects of school choice in Milwaukee

come despite the fact that it is a limited experiment in free-market education reform. There are several changes to the MPCP that would increase freedom for parents and educators, and ultimately intensify

benefits to students, parents, educators, and taxpayers.

PROPOSED CHANGES TO THE MPCP

1. Remove enrollment limit

Currently, the MPCP is capped at 22,500 full-time-equivalent students. In 2009-2010, 20,328 children attended 111 schools. Since the program expanded to include religious schools in 1998, enrollment has grown annually by an average of 1,326 students. Given these trends, the cap will be reached within two years, which will limit parents' choices, and also prevent high-quality schools that are growing to continue their expansion and/or open new locations. Removing the enrollment cap removes these artificial barriers to success.

“That kind of progress in education requires a climate where innovation is encouraged, barriers are removed and customers can choose the services they want.”



2. *Remove income limits*

Currently, a student must come from a household with an income at or below 175 percent of the federal poverty level (\$37,439 for a household of four) to qualify for the Milwaukee Parental Choice Program. In 2006, the law changed to permit a household income up to 220 percent of the federal poverty limit (\$47,065 for a household of four) once a student is in the MPCP. These limits leave many low-income working families trapped because they don't qualify for the MPCP but can't afford private school.

Dropping income eligibility would put schools in the MPCP on equal footing with charter schools, which have no income requirements, and ease greatly the bureaucratic burden on participating schools. More importantly, giving all Milwaukee parents more options would strengthen the City of Milwaukee and our state as a whole.

Throughout his tenure, former Mayor John Norquist supported school choice as a way to strengthen the middle class, a group he called the backbone to a "large and vibrant city." Indeed, giving parents the ability to attend any school in the City of Milwaukee at no cost to them would serve as a powerful advantage to Milwaukee in competing to attract businesses, residents, and, ultimately, jobs.

But would opening up the MPCP to all families fundamentally change the character of the schools in the MPCP? Would it prevent low-income families from having options?

As the table below shows, Milwaukee is on average not a wealthy city. The median average Milwaukee family has an income that is just above the continuing eligibility threshold for the MPCP. These numbers suggest that the

average Milwaukee family neither qualifies for the MPCP nor can afford private school tuition.

	Income	Percent of Poverty Limit
Median Milwaukee Household Income	\$37,022	229 percent
Median Milwaukee Family Income	\$42,950	223 percent
Continuing MPCP Eligibility	\$35,565	220 percent

Sources: U.S. Census American Community Survey and the Wisconsin Department of Public Instruction.

Because charter schools and MPS schools are already able to accept students regardless of income eligibility, it is logical to assume that a universal voucher program would have demographics similar to MPS and charter schools. That would mean a similar racial make-up and a slightly higher percentage of non-low-income students.

Removing income limits from the MPCP would simplify the enrollment process for schools and parents by removing the bureaucratic process of having to prove a parent is poor, prevent middle-class parents from being priced out of choice, treat private schools in the MPCP the same as other Milwaukee schools, and, more importantly, extend the benefits of school choice to more parents without changing the character of the schools.

3. *Remove geographic limits*

Under current law, schools must be located in the City of Milwaukee to participate in the MPCP. Allowing private schools outside of the City of Milwaukee to enroll Milwaukee students through the MPCP would further the options of Milwaukee parents. It is worth noting that Milwaukee students already have

the option to attend suburban public schools via Open Enrollment or Chapter 220. Even though the Legislature has passed legislation to expand the MPCP to Milwaukee County in recent past sessions, the governor has not supported it. A new governor should sign this bill into law and expand the opportunities for Milwaukee parents.¹⁶

4. *Equitable funding*

Per-pupil MPCP payments dramatically trail those of MPS and independent charter schools. In fact, MPCP students receive less public funding than any other students in the state. Recent budget cuts and increased program regulations have intensified cost pressure on schools and put them in a position where it is impossible to succeed.

Per-Pupil Cost/Payment	2009-2010
MPS Cost	\$15,374
Independent Charter	\$7,775
MPCP	\$6,442

Milwaukee needs to establish that all of its children have equal value. It needs to fund MPCP students, whose schools must meet additional regulations, such as accreditation, that no public schools in the state face at an equitable level.

These changes to the MPCP would give more Milwaukee parents more purchasing power to more schools, giving them the chance to acquire the best education for each individual child.

CHARTER SCHOOLS

Wisconsin became a pioneer in the charter school movement when it passed its first charter school law in 1993, just two years after

Minnesota passed the nation's first charter legislation. Since then, Wisconsin steadily has lost ground, as other states have enacted and expanded laws that offer more funding, autonomy, authorizers, parental and educator freedom, and, ultimately, innovation.

Charter schools are public schools. While the number of charter schools in Wisconsin is not capped, the only authorizer in the state except for Milwaukee and Racine is the local school board. A charter school can be established by the school board at its discretion or in response to a petition from teachers. The school then enters into a contract (generally five years) that governs its operations rather than traditional public school laws in chapters 115 through 121 of the Wisconsin State Statutes.¹⁷

In Milwaukee, the University of Wisconsin-Milwaukee, the City of Milwaukee, and the Milwaukee Area Technical College (MATC) also are authorized to charter schools. In addition, the University of Wisconsin-Parkside may authorize a single charter school in Racine. Unlike district charters, independent charter schools employ non-union teachers and are funded outside the state equalization aid formula. The schools receive substantially less funding than traditional public schools, just \$7,775 per pupil in 2009-2010. While independent charters in Milwaukee have more potential for innovation than most district charter schools, their growth has been limited by an inability to draw outside school operators to Milwaukee, resistance to widespread chartering by the University of Wisconsin System Board of Regents and the Milwaukee Common Council, and the unwillingness of MATC to use its chartering authority.

The untapped potential of charter schools in Milwaukee and Wisconsin could be realized through legislative changes to Wisconsin’s charter law based on successful charter laws elsewhere. According to the Center for Education Reform, Washington, D.C. and Minnesota have the two best charter laws in the country.¹⁸ Attributes of those laws, as well as model legislation from the National Alliance for Public Charter Schools, provide a framework for Wisconsin to increase options for families and educators while improving academic outcomes and embracing innovation.



PROPOSED CHANGES TO WISCONSIN’S CHARTER SCHOOL LAW

1. Eliminate all enrollment caps.

Wisconsin currently caps enrollment in virtual charter schools and the UW-Parkside charter school in Racine via state statutes, and Milwaukee Public Schools (MPS) charter schools via a memo of understanding between the Milwaukee Teacher Education Association and the MPS board. Wisconsin needs to eliminate all caps on the number of children who may attend charter schools of all types and put into law language that allows schools to open multiple locations under a single charter.

2. Increase the number of chartering authorities.

Allowing more entities to authorize charter schools will stimulate Wisconsin’s education marketplace by providing more high-quality authorizers, put pressure on inactive authoriz-

ers, and give parents more leverage in choosing a school. Other groups in addition to public universities should be allowed to authorize an unlimited number of charter schools, including:

All private non-profit four-year degree-granting institutions

Wisconsin has a vibrant private higher-education sector that could be an asset to producing high-quality charter schools. For example, institutions like the Milwaukee School of Engineering could authorize charter schools that prepare students for undergraduate programs.

The mayors of cities of the first, second, third and fourth class

The mayor of Indianapolis has had since 2001 the authority to authorize charter schools in the City of Indianapolis.¹⁹ Wisconsin mayors should have the same authority.

An independent statewide charter authorizer board

Both Arizona and the District of Columbia have independent charter-authorizing boards that have been successful at granting charters to high-quality schools. So should Wisconsin.

All state technical colleges

The Milwaukee Area Technical College is the only technical college in Wisconsin with the authority to authorize charter schools, but has never used it. Nonetheless, technical schools

have vast potential to create a pipeline into their vocational programs through the establishment of charter schools. The result would be more diverse schooling options for parents, students, and teachers.

3. Develop more equitable funding for students in charter schools.

Currently, unionized charter schools receive funding similar to traditional public schools. However non-union and independent charters in Milwaukee receive less. In 2008-2009, the average revenue per member in Wisconsin was \$12,463, while each student attending an independent charter school received \$7,775.²⁰

4. Provide funding for the acquisition and renovation of buildings for charter schools.

One of the challenges facing new charter school operators is limited access to facilities. School districts like MPS, which has excess building capacity for 22,000 students, are nonetheless refusing to sell or lease their facilities to other schools.²¹ Wisconsin should provide funding for charter school facilities, and allow it to increase annually with inflation.

5. Provide for transparent evaluation of authorizer performance.

Wisconsin charter schools currently are regulated via their individually negotiated contract with their charter authorizer. Wisconsin can similarly monitor charter authorizer perfor-

mance by directing the respected Wisconsin Legislative Audit Bureau to review authorizer operations and execution of contracts every five years. Institutions that are not holding schools to the terms of their charter contracts would lose their authority to grant charters.

“...charter schools in Milwaukee and Wisconsin could be realized through legislative changes to Wisconsin’s charter law based on successful charter laws elsewhere.”

OPEN ENROLLMENT

Interdistrict open enrollment is a state program that allows parents to request a K-12 public school for their child other than the resident school assigned to them by their home address.²² The program began in the 1998-1999 school year, and last year 28,025 Wisconsin students attended public schools

using open enrollment.²³ The large majority of applicants are to brick-and-mortar schools in neighboring districts. However, parents may also apply to charter schools, either traditional or online.

Wisconsin restricts open-enrollment transfers more aggressively than other states with similar programs and makes it much harder to apply. The application period is limited to a few weeks in February, too early for many families to make decisions. Parents may not learn of rulings for months, leaving their children in limbo.

Children with special needs are uniquely vulnerable to denial. Often parents make the choice of an online charter because their child will do best learning at home, only to have their application denied by their district because it wishes to maintain its funding. Bu-

reaucrats, not parents, make the final decision.

Public school open enrollment can be a central feature of a vibrant education system that holds achievement as the primary goal. Open enrollment is a tool parents use to procure the best possible education for each of their children. A mechanism must be in place to define and validate space-unavailability claims, since those denials are common and districts are not compelled to any standard of accommodation.

ONLINE LEARNING CAP

Wisconsin school districts in 2009-2010 authorized 15 charter schools that deliver instruction to 3,635 students using online curriculum.²⁴ These are full-time schools that are quite similar to the district’s neighborhood schools except that learning takes place largely at home. Students access online schools through the state’s public school open-enrollment program. School faculty is state certified and meets the statutory requirements of any Wisconsin charter school. Online schools are public and face the same transparency and accountability requirements of traditional neighborhood schools. Yet, these innovative schools continue to face threats from opponents, including the Wisconsin Education Association Council (WEAC).²⁵

Opponents capped online school enrollment at 5,250 children, with the justification that the restriction was needed until an audit

of the statewide online charter schools could be completed. The Legislative Audit Bureau conducted the audit and released the results in February 2010. The audit validated the accountability each school has to its district elected school board, showing online schools to be not only successful and popular, but well managed. The results of this audit would be coveted by any public school. Strikingly, over 90 percent of parents, teachers, and high school students reported that they were satisfied with their school.²⁶

The enrollment cap has no basis in research or data. The number 5,250, which is a mere fraction of one percent of total public school K-12 enrollments in Wisconsin, is arbitrary. The cap has created a cumbersome and costly waiting list process that burdens schools, teachers, DPI staff, and, most significantly, Wisconsin families.

The enrollment cap on Wisconsin’s statewide online charter schools is onerous to taxpaying parents and shameful treatment of young boys and girls who are simply asking to attend their preferred Wisconsin public school. This regressive practice should end with the closure of the waiting list for the 2010-11 school year. The summer of 2010 must be the last summer in limbo for families who want their children to attend what are some of the state’s most successful public schools.

“Educational freedom produces results, innovation is critical, and scarce resources mean we need to do more with less.”

STATEWIDE REFUNDABLE TAX CREDIT

A statewide private school education tax credit will help ensure that parents across the state have the freedom to make school choices that best serve their children’s learning and development.

Currently, there are 126,812 students attending private schools in Wisconsin whose parents are paying tuition in addition to their public school tax burden.²⁷ Provision of a refundable tax credit for those parents would open the opportunity for a private school education to children of all family income levels.

Three states bordering Wisconsin offer some sort of tax incentive for parents choosing private schools.²⁸ Importantly, the value of the tax credit must be greater in Wisconsin than any of these states if it is to have the desired policy effect of encouraging opportunity for all families, as opposed to simply offering a modest tax benefit to private school users. A tax credit worth \$2,500, roughly 30 percent of the average United States private school tuition, indexed to increase annually by an amount equal to the percentage increase in the Consumer Price Index, would enhance greatly the ability of children of all socioeconomic backgrounds to attend private school throughout the state.

In a June 2010 poll for this project, 64 percent of the respondents favored a tax credit for low- and moderate-income parents who send their children to public and private schools.

CONCLUSION

If Wisconsin wants to improve a situation headed in the wrong direction, we must expand freedom for parents and educators by providing more educational choices while letting dollars follow students and embracing innovation.

Nowhere is this more important than in Milwaukee with its poor academic results and virtually bankrupt school district.

The reasons for doing this are clear: Educational freedom produces results, innovation is critical, and scarce resources mean we need to do more with less.

Wisconsin can regain its place as a national leader in educational excellence and reform by opening more opportunities to both families and educators while raising the bar on academic achievement and equity.

More equitable funding and access to a varied menu of choices give all children growing up in our state the freedom to learn as they learn best. The reforms described will create an educational marketplace hospitable to innovation and freedom that will ultimately raise achievement without ignoring fiscal reality.

Finally, the entire state should realize that when it comes to education, as Milwaukee goes, so goes Wisconsin.

Endnotes

¹ University of Wisconsin-Milwaukee Department of Assessment and Institutional Research, May 18, 2010.
² See: Kevin Carey, “How States Inflate Their Educational Progress Under NCLB,” The Education Sector. May 2006.



³ 1990, 1992, and 2009 National Assessment of Educational Progress, the National Center for Education Statistics.

⁴ The Wisconsin ACT participation rates in 2009 for African American and Hispanic students were 36.5 percent and 33.0 percent, respectively. Average composite scores were 16.8 and 19.7.

⁵ Milwaukee Public Schools Board of Directors, “Facts and Figures,” 1977. Milwaukee Public Schools, “Superintendent’s Proposed Budget,” Fiscal Year 2011.

⁶ National Assessment of Educational Progress Trial Urban District Assessment, The National Center for Education Statistics, 2009.

⁷ Comparative Indicators of Education in the United States and Other G-8 Countries: 2009, National Center for Education Statistics, March 2009.

⁸ Don Bezruki, “A Critical Element of Reform of Milwaukee Public Schools: The Escalating Cost of Retiree Health Insurance,” The Wisconsin Policy Research Institute, December 2009.

⁹ Improving Educational Outcomes in an Era of Choice, School Choice Wisconsin, April 2008.

¹⁰ See *Liberating Learning* by Terry Moe and John Chubb, *Disrupting Class* by Clayton Christensen, and *Saving Schools* by Paul Peterson.

¹¹ Don Bezruki, “A Critical Element of Reform of Milwaukee Public Schools: The Escalating Cost of Retiree Health Insurance,” The Wisconsin Policy Research Institute, December 2009.

¹² Rob Warren, “Graduation Rates in the Milwaukee Parental Choice Program and the Milwaukee Public Schools: 2003-2008,” February, 2010.

¹³ Greene and Marsh, SCDP

¹⁴ Robert Costrell, “The Fiscal Impact of the Milwaukee Parental Choice Program, 1993- 2008,” The School Choice Demonstration Project, February 2008

¹⁵ January 13, 2010 memo from LFB to Rep. Jeff Fitzgerald (available at www.SchoolChoiceWI.org).

¹⁶ See 2003 AB 260.

¹⁷ Merrifield, Layla, Informational Paper 31: Charter Schools, Wisconsin Legislative Fiscal Bureau, January 2009.

¹⁸ The Center for Education Reform, Charter School Law Ranking and Scorecard 2010.

¹⁹ <http://www.indy.gov/eGov/Mayor/Education/Charter/Pages/home.aspx>.

²⁰ Department of Public Instruction.

²¹ A Spending Education: Milwaukee Gets Money for Unneeded Schools, The Wall Street Journal, February 7, 2009.

²² See: <http://dpi.wi.gov/sms/psctoc.html>.

²³ Russ Kava, “Informational Paper 30: Inderdistrict Public School Open Enrollment,” The Legislative Fiscal Bureau,

2009.

²⁴ Wisconsin Department of Public Instruction.

²⁵ In 2004, WEAC sued a first-year statewide online charter school run by the Northern Ozaukee School District on several grounds, including that parents of students in the school were too involved in their children’s education. The school, Wisconsin Virtual Academy, grew each successive year despite the threat of the lawsuit. More families found the school, grade levels were added, the faculty grew, and state test scores were just as good as, and often better than, the student’s resident district scores. In perhaps the most telling measure of value, retention rates for enrolled students were higher than district projections.

Nonetheless, Wisconsin Virtual Academy was closed by court ruling in December 2007. The court denied the district funding for the 2007-2008 school year, which was already nearly half over. Thousands of parents and students joined their teachers and administrators and went to Madison to ask legislators to save their schools. Through a bipartisan compromise, state statute was brought up-to-date to recognize online instruction as a legal form of public schooling in Wisconsin, and Wisconsin Virtual Academy was allowed to reopen.

²⁶ Wisconsin Legislative Audit Bureau, “An Evaluation: Virtual Charter Schools,” February 2010.

²⁷ Wisconsin Department of Public Instruction. There are an additional 21,062 students attending private schools in Milwaukee via the MPCP.

²⁸ Program information obtained from the Foundation for Educational Choice.

Minnesota offers both a tax deduction for 100 percent of education expenses including tuition for private schools, and a refundable tax credit for education expenses beyond tuition equal to 75 percent of those expenses up to a maximum of \$1,000 per child. The fact that the credit is refundable ensures that low-income families with limited or no tax liability can also increase their education purchasing power.

Iowa offers a non-refundable tax credit equal to 25 percent of a parent’s total education expenses up to a maximum of \$250. Education expenses include fees for activities as well as books and tuition for private schools.

Illinois offers a non-refundable tax credit worth 25 percent of total education expenses after the first \$250 up to a maximum of \$500. Like Iowa, education expenses can include fees for activities in addition to books and tuition for private schools.

SAVING MONEY AND TEACHERS’ JOBS IN ONE SIMPLE STROKE

— BY SCOTT NIEDERJOHN —

Scott Niederjohn, the director of the Center for Economic Education at Lakeland College, explains how our antiquated and basically rigged system is robbing school kids of millions of dollars. Niederjohn not only unearths this little-known problem, but tells us how to solve it.

INTRODUCTION

Anyone who has listened to the news for the past two years knows that there are serious shortfalls in the budgets of Wisconsin’s public schools. We know this has led to teacher layoffs and reductions in programs. And yes, it’s a given that if you can’t educate the next generation to compete successfully in a more competitive world, you might as well give up now and save the time and energy. If Wisconsin kids today can’t find solid jobs tomorrow, there is no future for this state, period.

This report offers a clear, sensible and almost effortless way to solve part of this problem. But it is running into stiff resistance from entrenched powers who, while they may desire the same kind of success that we all do, simply don’t want to have to change what they already have in place.

Here’s the problem: In many districts, teacher health insurance benefits are more expensive than they need to be. That’s because the teachers union has chosen a provider in a

process that didn’t allow bids from other health care providers. Taxpayers wind up paying more for this closed system, and other teachers will lose their jobs because of this unwillingness to change.

Take the Milwaukee Public Schools district (MPS) as an example. Faced with a large budget shortfall, the administration proposed a plan that called for a significant reduction in the number of teachers and other staff members. It just couldn’t pay their salaries. According to the district, however, if the teachers moved to a less-expensive health care plan—*with no out-of-pocket cost to the teachers*—more than one-third of those positions could be restored.¹

This seemingly easy choice—one that would save the jobs of many fellow teachers through the move to the new health care plan—was never formally considered by the Milwaukee Teacher Education Association (MTEA). As a result, 480 Milwaukee Public School teachers received layoff notices as the

2009-2010 school year closed. Similar options have been rejected by other Wisconsin teachers unions throughout the state. Why is that?

When union leaders are pressed to explain these choices they generally cite some combination of the following:²

- Funding for schools and rising health insurance costs aren't their fault. It's a national crisis that needs to be solved.
- Teachers work hard for those benefits and are entitled to them. Offer anything less and you won't get or keep the quality educators the district needs to be successful.
- Members have fought for the right to have the quality health care they now enjoy.

In fact many Wisconsin school districts are simply locked into an outdated and inflexible model of procuring health insurance benefits. Increases in health insurance costs consume a growing portion of Wisconsin public school teachers' total compensation. That's because the health insurance market for public school teachers is dominated by one monolithic organization – the Wisconsin Education Association Insurance Corporation (WEAIC), which is, not coincidentally, an affiliate of the state's largest teachers union. WEAIC writes health insurance coverage on teachers in approximately 64 percent of districts in the state. In most districts, the carrier has been chosen through a no-bid process.³ More important, the coverage is more expensive than the alternative carriers that other districts choose.

In other words, the teachers union benefits from this sweetheart deal at the expense of the taxpayers.

Wisconsin school districts could save huge amounts of money if they would provide health insurance through a more competitive

process. Private firms have understood this for years; even the vast majority of governmental units have moved in such a direction. This article focuses on the Wisconsin state government health insurance pool as one example of a competitive system. Many Wisconsin school districts could realize substantial savings if they moved to this plan or one similar to it. Establishing a system that allows school districts to seek bids from competitive teacher health insurance carriers would significantly lower insurance premiums and allow teachers to actually benefit from increased job security and potentially higher salaries. And most important, their health coverage would not significantly change.

It sounds like a no-brainer, but this is a perfect example of how everyone wants change, but not in their backyard. (And bear in mind, a topic like health insurance for public employees may seem to be a pretty dry subject, but if you want to fix things, this is where you have to start. So stay with us, and remember, all politics is local.)

THE HEALTH INSURANCE MARKET FOR WISCONSIN'S PUBLIC SCHOOL DISTRICTS

We'll start with the obvious: The market for health insurance in Wisconsin is fragmented. In 2008, the leading provider claimed about 13 percent of the Wisconsin group accident and health insurance market.⁴ This share quickly falls to five percent for the fourth- and fifth-largest carriers, while more than 30 different insurers shared the final 60 percent of the market. In other words, the market for the vast majority of the people in Wisconsin is wide open.

In contrast to the overall health insurance in the state, the market for Wisconsin's public school district health carriers is dominated by one near-monopoly provider: the Wisconsin Education Association Insurance Corporation (WEAIC). And as we previously stated, this is an affiliate of the state's largest teachers union. WEAIC writes health insurance coverage on teachers in approximately 64 percent of districts in the state.⁵ This makes it the dominant player in the market. The next-most-popular insurance carriers are Security and Dean, at 7 and 6.8 percent, respectively. WPS and WCA come next, with the remaining 16 percent of districts using other carriers. This is not wide open at all; just take a look at Table 1.

Table 1: Wisconsin Public School Health Insurance Carriers in 2009-2010

Carrier	# of Districts	% of Districts
WEA Ins Corp	245	64.0%
Security	27	7.0%
Dean Health Plan Inc	26	6.8%
WPS	13	3.4%
Wisconsin Counties Association (WCA)	11	2.9%
Other	61	15.9%
TOTAL	383	100.0%

Source: Wisconsin Association of School Boards; based on a sample of 383 of Wisconsin's 426 school districts.

BENEFIT COSTS FOR WISCONSIN TEACHERS

Wisconsin spends a lot on teacher benefits. It ranked 10th in the nation in per-pupil spending on teacher benefits, at \$1,976.⁶ This number is almost 40 percent higher than the U.S. average of \$1,420 per pupil. The same source reports that in 2008 Wisconsin public school teachers' benefit costs represented, on average, 40

percent of salaries. This number is, once again, well above the national average of 23 percent, and it puts Wisconsin in the top 10 of U.S. states in this area.

It gets worse when teacher benefit costs are measured as a percentage of state personal income. For every \$1,000 of personal income earned within the state of Wisconsin, \$8.28 was spent on instructional public school employee benefits in the 2008 school year. This number is 44 percent above the national average, demonstrating that Wisconsin spends a disproportionately high percentage of its income on public school teacher benefits. This high level of spending places Wisconsin fourth in the nation, just behind Alaska, New York, and West Virginia.

Table 2: Public School Spending on Teacher Benefits per \$1,000 of State Personal Income

Rank	State	Public School Teacher Benefit Costs per \$1,000 State Personal Income
1	Alaska	\$14.69
2	New York	\$9.57
3	West Virginia	\$9.18
4	Wisconsin	\$8.28
5	Michigan	\$8.05
	U.S. Average	\$5.78

Source: U.S. Census Bureau

The average monthly cost of single-person coverage paid by Wisconsin school districts is about \$728, while the family premium costs, on average, about \$1,684. But as Table 3 reveals, those districts that choose to use WEAIC as their insurance carrier pay a significantly higher premium than the other districts. The average single-coverage costs for districts using WEAIC is \$770.75, while their family-

coverage costs are \$1,749.69. Compare this with the average costs of the two premiums paid by Wisconsin’s school districts that don’t use WEAIC. The premium paid by districts that use WEAIC coverage is more than 16 percent higher (for single coverage) and more than 10.5 percent higher (for family coverage) than premiums paid in the other districts.

Table 3 also shows that, on average, Wisconsin taxpayers foot the difference. School districts pay 96 percent of the single-coverage health insurance premium on behalf of teachers, and 95 percent of the family-coverage premium. This is well above what the typical employer provides for workers in the U.S. as a whole or in Wisconsin. In other words, teachers pay less for their coverage than taxpayers in the private sector.

According to the Kaiser Family Foundation,⁷ employers (both in Wisconsin and throughout the country) tend to pay between 72% and 76% of the health insurance premiums for their employees, while Wisconsin school districts pay almost all of the costs for their teachers – 95 percent on average. Further, Table 3 (at end) reveals that single deductibles average about \$167 for Wisconsin teachers, and teachers’ average family deductible is about \$348.

Table 3: Wisconsin Public School Teacher Health Insurance Characteristics, 2009-2010

WISCONSIN SCHOOL DISTRICT INSURANCE CARRIER	NUMBER OF SCHOOL DISTRICTS	AVERAGE MONTHLY SINGLE PREMIUM	AVERAGE MONTHLY FAMILY PREMIUM	AVERAGE % OF SINGLE COVERAGE PAID BY EMPLOYER	AVERAGE % OF FAMILY COVERAGE PAID BY EMPLOYER	AVERAGE SINGLE DEDUCTIBLE	AVERAGE FAMILY DEDUCTIBLE
ALL	383	\$728.17	\$1,683.54	96%	95%	\$167.28	\$347.64
WEA INS CORP	245	\$770.75	\$1,749.69	96%	95%	\$119.39	\$244.71
NON WEA INS CORP	138	\$663.29	\$1,582.76	96%	94%	\$237.42	\$498.39

Source: Wisconsin Association of School Boards

BARRIERS SCHOOL DISTRICTS FACE WHEN CHANGING HEALTH INSURANCE CARRIERS UNDER CURRENT STATE LAW

So, given the higher costs that school districts pay to use WEAIC coverage, why do they choose it, especially when school districts are technically free to solicit other bids for health insurance coverage? In fact, state law requires that if a school district wants to change its health insurance carrier, it is required to solicit sealed bids.

However, in practice, school boards are severely limited in their ability to solicit competitive bids. This is because every aspect of health insurance coverage is subject to collective bargaining. The Wisconsin Employment Relations Commission (WERC) has ruled that even minute administrative matters must be bargained.⁸ This includes not only the overall coverage and employee cost-sharing provisions, but also the manner in which the coverage is administered. Further, in many contracts, WEAIC is actually named as the

health insurance provider. These factors have rendered it difficult, if not impossible, for school boards to move away from WEAIC as the insurance carrier. In a bizarre twist, collective bargaining provisions have been used to solidify WEAIC’s near monopoly position in the teachers’ health care market.

Yet the benefits that can come from competitively bidding health insurance for public school districts are self-evident. Basic economic theory reveals that a competitive market for any good or service is more likely to result in the most efficient and cost-effective allocation of resources. Private-sector employers, as well as governments, have long understood the potential for cost savings of such a bidding strategy.

INSURING PUBLIC SCHOOL TEACHERS THROUGH THE STATE EMPLOYEE POOL

It is obvious that WEAIC holds a significant advantage over other insurance carriers since, as we have just shown, the cost of obtaining health insurance through that carrier is demonstrably higher than the cost of coverage from other carriers.⁹ Yet, although it costs more, WEAIC is the carrier of choice for 64 percent of Wisconsin school districts in our sample. Unlike other public and private entities in Wisconsin, school district choices of health insurance carriers is affected by the relationship between WEAIC, the health insurer, and WEAC, the teachers union.

Consider the following:

- WEAIC is the *only* health insurance carrier included at the bargaining table when school district contracts are negotiated with teachers.
- School districts cannot change from WEAIC without agreement from the teachers, most of which are represented by WEAC.
- WEAIC is reluctant to readily make available important data needed for school districts to solicit competitive bids.



REFORM

How might the process be reformed to create a more competitive environment? As a start, reforms would have to focus on a system that encourages school districts to competitively bid for their health insurance carriers. A proxy for a health insurance market for public school teachers that

provides service through a competitive bidding strategy is the state health insurance pool for Wisconsin public employers. Employee Trust Funds (ETF), a subdivision of the Wisconsin Retirement System (WRS), operates this pool, and employees statewide receive their coverage from this pool system.

This innovative method creates a more traditional supply-and-demand market. The supply side of the market is established each year as the ETF collects bids and premiums from health insurers whose policies meet certain standards identified by the state. The policies can range from full indemnity coverage to HMO coverage. Qualifying plans must meet state standards established to provide extensive coverage.

Subsequently, to establish the demand side of the market, employees select a plan from the available choices in their respective county of residence. This individualized choice creates an environment in which insurers have an incentive to offer the highest-quality plans at the lowest possible prices in order to be competitive. This system stands in stark contrast to the options currently available to school districts, which generally offer a single plan.

Allowing public school teachers to select their own individual health insurance policies would be a significant departure from the current collective bargaining system. Even with these changes, school districts and unions would still need to negotiate the dollar amount each employee would be required to contribute toward each respective tier plan, similar to the manner in which state employee unions bargain under Wisconsin statutes.

Many local governments throughout the state participate in the health care plans offered by ETF. However, in our sample, only the Fenimore Community, North Cape and Yorkville J2 school districts participate in the Wisconsin public employers' group health insurance plan.¹⁰

If school district employees chose to join the state health insurance pool, the advantage that the WEAIC offers would no longer exist. Of course, WEAIC would still be able to compete in the health care market by developing a competitive insurance policy for state employees and offering it as another option within the current state plan.¹¹

CHOICES FOR TEACHERS

Joining the state plan would provide teachers with significantly more choices than they currently have. They would gain the ability to choose the plan available in their county that works best for them. If they would rather continue with an expensive preferred provider plan, like the Milwaukee Public Schools currently has, it would be their option, but they would pay for it. Or they could choose one of the generous HMO options available and enjoy a lower premium.

Such a reform would provide a substantial incentive for attracting bright young teachers into the profession. It is likely that most young teachers, often in good health, would be interested in a reform that would allow them to make their own health care choices. Instead of these young teachers being forced into expensive health care options chosen by their unions, they would be able to select less expensive options and, perhaps, enjoy new benefits in the form of higher salaries.

ADVANTAGES FOR SCHOOL DISTRICTS

School districts would save significant money if they were able to join the state plan. We know this by simply calculating the difference between the employer's contribution of total state pool premiums and the employer's contribution of the premiums paid by the school districts. State premiums are available in the "It's Your Choice" guide provided each year to Wisconsin state employees, and the district premiums are available from the Wisconsin

"...the WEA Insurance Corporation charges more for health insurance coverage than alternative carriers."

Association of School Boards (WASB).¹²

Two hundred and fifty-nine of the 382 school districts in our sample, or about 68 percent, would reduce their health insurance costs if they switched to the state insurance plan. Based on the stated assumptions, the Milwaukee Public Schools district would save more than \$18 million per year by transferring to the state plan. The Fond du Lac district would save more than \$1.8 million.

Table 4 reports data for the 10 districts that would achieve the greatest savings if they were to participate in the state pool. The savings would clearly be significant. The table also reports the insurer currently providing coverage in each of these districts. In this sample, six of the top 10 currently use WEAIC. In fact, of the 50 districts that would save the most by changing to the state plan in our sample, WEAIC is the current insurer in 36 cases (72 percent).

Table 4: Districts That Would Save the Most Money by Moving to Health Coverage through the State Pool, 2009-2010

Rank	School District	Savings	Current Carrier
1	Milwaukee	\$18,361,105	Aetna
2	Fond du Lac	\$1,870,830	WEAIC
3	Mukwonago	\$936,443	WEAIC
4	Appleton Area	\$924,858	WEAIC
5	Jefferson	\$810,611	WPS
6	Marinette	\$614,014	WEAIC
7	Watertown	\$589,437	WPS
8	Richland	\$530,207	WPS
9	Reedsburg	\$528,821	WEAIC
10	Holmen	\$524,245	WEAIC

Source: Wisconsin Association of School Boards

THE NO-BRAINER: SAVING JOBS OR INCREASING TEACHER SALARIES

The money that school districts would save by providing health insurance coverage through the state pool could be used to balance their budgets, avoid layoffs, provide property tax relief, increase teacher salaries, or provide for other district needs.

We see this in Table 5, which shows data for the 10 districts that would be able to increase teacher salaries by the greatest amount if the savings from participating in the state pool were passed on to the teachers. The largest potential increase, \$5,609 per teacher, is in the Jefferson school district. Interestingly, according to WASB contract settlement data, Jefferson has already made the decision to move to the Wisconsin state pool beginning on October 1, 2010. The table also reports the current insurer in each of these districts—WEAIC provides insurance in seven of 10.

Table 5: Districts That Would Save the Most Money by Moving to Health Coverage through the State Pool on a Per FTE Basis, 2009-2010

Rank	School District	Savings per FTE	Current Carrier
1	Jefferson	\$5,609	WPS
2	Clinton Community	\$5,256	WEAIC
3	Niagara	\$5,250	WPS
4	Herman #22	\$5,071	WEAIC
5	Potosi	\$5,021	WEAIC
6	Paris J1	\$4,850	WEAIC
7	Cassville	\$4,802	WEAIC
8	Richland	\$4,791	WPS
9	Beecher-Dunbar-Pembine	\$4,695	WEAIC
10	Tigerton	\$4,436	WEAIC

Source: Wisconsin Association of School Boards

CONCLUSION

Wisconsin's public school districts are trapped in a dated system of providing health insurance benefits for their teachers. The health insurance market for Wisconsin school districts is dominated by the Wisconsin Education Association Insurance Corporation. WEAIC writes the insurance plans for over 64 percent of Wisconsin school districts. This paper shows that it charges more for health insurance coverage than alternative carriers. Reform that would foster competition in the market for teachers' health insurance would serve the interests of Wisconsin's taxpayers and teachers.

In particular, reforms at the state level that would allow school districts more power in choosing the health insurance carrier—rather than negotiating with their teachers union—would be a useful first step towards solving this dilemma. A model for reform is the health insurance pool for state employees. This plan is administered by the Department of Employee Trust Funds (ETF). *If health insurance for teachers could be provided through ETF, savings could accrue to the majority of school districts in the state. These savings could be used to balance district budgets, avoid layoffs, provide for teacher salary increases, or provide property tax relief to residents and finally, educate more of Wisconsin's children... a situation in which everyone benefits.*

Endnotes

¹ This was reported on May 14, 2010, by Erin Richards, in the *Milwaukee Journal Sentinel*.

² From conversations with journalists that cover education issues in Wisconsin.

³ According to conversations with Wisconsin Association of School Boards (WASB) representatives.

⁴ According to the Wisconsin Office of the Commissioner of Insurance.

⁵ According to a survey sample of 383 of Wisconsin's 426 school districts (survey provided by the Wisconsin Association of School Boards).

⁶ According to the latest data available from the U.S. Census Bureau's Public Elementary-Secondary Education Finance Report for 2008.

⁷ Data available from: <http://www.statehealthfacts.org/>.

⁸ Section 111.70 Wis. Stat.

⁹ As seen above in Table 3.

¹⁰ According to the Wisconsin Association of School Boards (WASB), Monona Grove also participates in the Wisconsin state health insurance program.

¹¹ Currently, WEAIC only offers insurance products to Wisconsin public school districts that have a Wisconsin Education Association Council (WEAC) bargaining unit. WEAIC is not prevented from expanding its business to compete in the state employee pool by its charter/articles of incorporation.

¹² A precise calculation of the total savings would require information on the number of employees choosing individual or family coverage. We can obtain an informative estimate, however, by assuming that one-third of the employees would choose single coverage and the remaining two-thirds would choose family coverage.

The state employee premiums that are used in this analysis are those for the benefit year 2010. Similarly, the school districts' premiums are those from the 2009-10 benefit year.



Economic Development

WISCONSIN: WE’VE GOT A PROBLEM

— BY TOM HEFTY, JOHN TORINUS AND SAMMIS WHITE —

UW-Milwaukee Professor Sammis White and successful businessmen Tom Hefty and John Torinus know that the people who want to start businesses (and create jobs) are out there. All they need is half a chance from our political leaders. If Wisconsin wants to stop losing decent-paying jobs and actually add more of them, this is the blueprint to get us back on track.

Wisconsin’s economy has been eroded over the past 30 years by the waves of economic change that have battered the rest of the country as well. With each storm, the business foundation of the state has weakened. Then a brief calm gives false hope that everything is okay. But no one rebuilds the foundation. And no one looks to harness the waves of change.

Keep that in mind as you read this report on Wisconsin’s economic decline. Because there has always been something of a rebound—no matter how small—a lot of people here don’t see an economic problem. Unfortunately, the facts don’t support their lack of concern.

Over the last two years, this state has lost over 151,000 jobs. But with some important exceptions, Wisconsin’s economic performance has been sliding since 1978. The state ranks 48th out of 50 in 30-year personal income growth. Average wages have been declining relative to the U.S. average. The state ranks poorly in the percentage of adults with

bachelor degrees. There are few Wisconsin industries, beyond health care, education and government, with any significant growth. And perhaps most important and least understood, the state is below average or near the bottom in rankings for new firms launched.

The need for job creation is more vital today than it has been in decades.

Wisconsin needs a fundamental change in economic development leadership, strategy and structure. That process will require that the timeworn Wisconsin cultural and political assumptions be openly challenged. Change will not be easy nor without controversy. But big changes are required. Better, bolder ideas must emerge. (Although politicians are reluctant to admit the need for change, Wisconsinites see the evidence firsthand. They watch their children and grandchildren leave to find decent jobs elsewhere.)

Calls for job generation have been made before. Wisconsin has launched multiple com-

missions, studies, economics summits, reports, commentaries, and legislative hearings. There was the Strategic Development Commission of 1985, the Blue Ribbon Commission on 21st Century Jobs in 1997, and the Grow Wisconsin Plan in 2003. Despite the best of intentions and some constructive ideas, little progress has materialized. Execution has been modest. The results have been poor. Barriers persist that undermine bold efforts to stimulate the Wisconsin economy.

But before launching into recommendations on what we think Wisconsin should do, we need to revisit the past—and it’s not all negative. Wisconsin has experienced some success, and there are positive lessons in our history. But those successes must be understood and put into perspective.

THE STATE’S INCOME REPORT CARD

Over the last 30 years, Wisconsin per capita income has never surpassed the national average. It is a statistical truth that roughly half of the states are above average. Wisconsin was never among them, not once in three decades—and that includes some real boom years for the United States economy. Many Wisconsin residents seem to have grown complacent in accepting below-average economic opportunities—akin to fans accepting a coach who never is better than .500. There were exceptions—periods of improvement. Unfortunately, those improvements proved temporary.

Under two governors—one a Republican and one a Democrat—the state flirted with

success. During the 1970s under Democratic Gov. Pat Lucey, a businessman, Wisconsin grew jobs faster than in the nation. Per capita income grew. Lucey was a reform governor, merging the higher education system and leading efforts for a business tax cut—the M&E property tax exemption for manufacturers’ machinery and equipment. In 1977 the *Wall Street Journal* called Wisconsin the “star of the snowbelt.”

Following another dismal decade in the

1980s, Republican Gov. Tommy Thompson came in and turned the state’s fortunes around again. He reformed welfare, encouraged new education choices and was a cheerleader for business. Wisconsin employment grew faster,

incomes improved and people actually moved to Wisconsin, while the state’s economy flourished. The prosperity lesson from Lucey and Thompson is simple—leadership matters, especially when it comes to economic development. It’s not about party politics. Bold reforms inspire confidence in business and workers alike.

Despite the strategic failures over the last decade, one recent Wisconsin success story resonated—investing in biotech, notably at the UW-Madison and in Dane County. UW-Madison Professor James Thompson surfaced as a world leader in stem-cell research, and the expectations for a potential payoff grabbed headlines.

UW-Madison established credibility with the attraction of major federal research dollars, well publicized world leadership in research, a

“Bold reforms inspire confidence in business and workers alike.”

chancellor and university regents who promoted the story, and support from the governor’s office. Governors from both parties, Thompson and Democrat Jim Doyle, supported the biotech research. The research success coincided with a period when state dollars were made available and invested. Many of the biotech dollars were bonded, not General Purpose Tax Revenues (GPR), which made the spending less controversial. The dollars invested in this effort at UW-Madison have been estimated at more than \$750 million, and the payoff has been substantial. That growth in dollars and jobs in the biotech sector has helped Dane County weather the Great Recession as only a modest blip. The rest of Wisconsin has not been so fortunate.

With these examples of bold initiatives, one might think that a strong argument has been made for the state to be more active in stimulating economic growth. Unfortunately, that has not been the case. Other recommendations—clusters, broadband, more investment in entrepreneurial ventures, more effective technology transfer, clean tech—have failed to gain major state investment. Northwest Wisconsin had computers, southeast Wisconsin had medical devices; neither received state attention. The nascent “freshwater cluster” in Milwaukee has only recently resonated enough to win substantial public dollars. UW-Milwaukee has received a \$54 million commitment for a freshwater campus, a tiny fraction of the

biotech investment.

The question we seek to answer is why so many proposed efforts over many years failed to gain support. What forces have been so strong as to inhibit support anywhere near the level of state investment in biotech in Madison? The answers are varied, and some are not very pretty.

“...growth in dollars and jobs in the biotech sector has helped Dane County weather the Great Recession as only a modest blip.”

WISCONSIN’S FAILURES—THE REASONS

Wisconsin Culture

One of the most critical reasons for Wisconsin’s tepid approach to economic development is that—other than in Madison—Wisconsin has not been willing to place large bets to strengthen the economy.

Most people don’t realize that the state has struggled fiscally for decades. One reason: Wisconsin’s taxes remained high and spending remained generous in other areas, just not in economic development. A recent Deloitte study of Wisconsin competitiveness found that economic development staffing was one-half the level of competing states. Economic development dollars were as little as one-quarter the level of competing states.

The economic development failures go beyond dollars to the state’s culture. Historically, Wisconsin has been reluctant to support business, particularly big business. Wisconsin culture is ambiguous at best about business; Progressive politics in Madison and Socialist politics in Milwaukee often displayed outright hostility. Wisconsin was one of the last states

in the union to create a state agency to assist and coordinate economic development. That was in 1971!

That open animosity has continued into the 21st century. In 2008 the UW-Madison chancellor openly attacked the state chamber of commerce for taking positions that are common postures among business organizations across the United States—advocating a more competitive tax climate. What makes Wisconsin unique is not businesses favoring low taxes. What makes Wisconsin unique is its continuing culture of ambiguity or hostility towards businesses—the organizations that create jobs and economic opportunity. In the flat world of economic competition in the 21st century, that culture is guaranteed to lose business opportunities.

The Ostrich Syndrome

Compounding this cultural factor, Wisconsin citizens and politicians have often denied that the world is changing around them and that the state must dramatically adjust. Too many citizens and politicians think that the way things were will remain or be restored and that concerted efforts to respond to a vastly changed world are unnecessary. Wisconsin has survived several economic downturns and then seemingly come back, having not done anything unusual. That history strongly deters new efforts to bring more dramatic change to the state’s economy. The result has been that Wisconsin continues to fall further behind

other states that were once its equal.

Dysfunctional Politics—The Downfall of Pro-Growth Politicians

Just as corrosive to any public-sector action on economic development have been ongoing and bitter party rivalries. The Legislature is dysfunctional; it cannot reach agreement on any issue of note. There is little bipartisan support for economic development initiatives or much else. Neither party crosses the aisle. Business managers and politicians have not been on the same page. They cannot agree on what must be done, nor even that something different should be done. Their rhetoric is stale and unconvincing. In the words of Shakespeare: “A plague on both your houses.”

The GOP positions are generally pro-business, but are canned reproductions from decades past: lower taxes, less regulation, and smaller government. Valid or not, they haven’t figured out how to be pro-growth. Since the days of Gov. Lucey in the 1970s—and that’s almost 40 years ago—Wisconsin has lacked pro-business or pro-growth Democrats. The Clinton-inspired moderate Democratic Leadership Council (DLC) in Washington created a middle-of-the-road, pro-growth wing of the Democratic Party. The DLC supported ideas from Gov. Thompson to reform welfare and open school choices for parents. But there was little support from Wisconsin Democrats



today. The seeds of the DLC did not take root in Wisconsin. The legacy of the early 20th century remains—business must be regulated, not promoted.

The disconnect between the business world and the political leadership has been compounded in recent years because of the heavy influence of union leadership on Democratic politics. Both houses

of the Legislature are now led by former union leaders, and their legislation has sent discouraging messages to the CEOs who make location decisions.

Higher business and

personal taxes, pro-union measures, increased regulation and greater liabilities do not weave a welcome mat for anyone thinking of starting a new business in Wisconsin.

The state's profile has long been characterized by more union activism than many other states. One can argue the benefits of that reality, but there can be no argument that businesses put plants in more supportive locations.

The 2010 CNBC ranking of the Top States for Business ranked Wisconsin 46th for “work-force.” That miserable position was derived in spite of the huge investments in training and education and the vaunted work ethic of the state's citizens.

Milwaukee

Further compounding the inaction on economic development is Wisconsin's longtime aversion to investing in Milwaukee. Wisconsin's great city was once the economic engine that drove the state. Today, it has become the



state's liability, viewed as a sinkhole. “Stick it to Milwaukee” is a common phrase heard throughout the state.

Any request to state government in Madison to invest in the Milwaukee region is met with skepticism or outright disdain. For example, the venture capital segment of the state pension fund hasn't put any real dollars

into the entrepreneurial economy of Southeastern Wisconsin, even though many of the pension contributions come from the region. That pervasive neglect penalizes the state's largest economic

engine in terms of needed stimulation and large-scale investments.

In 2005, the seven counties in the Milwaukee area created a new organization, called the M-7, to market southeast Wisconsin as a strong region for business investment. That group is working hard to change the regional dynamics, but this is a Herculean task. Before its inception six years ago, Milwaukee's problems had become a self-fulfilling prophecy. Milwaukee did poorly—in performance and in economic development attention. A 2003 study by the Wisconsin Revenue Department noted that growth and per capita incomes in non-metro areas of Wisconsin were above peer non-metro regions in other states. The Wisconsin slide in income and job losses was concentrated in the state's metro areas, led by Milwaukee, according to the study. Out-state legislators see little prospect for change, and little reason to invest in the region. The 2006 audit of economic development spending by the Legislative Fiscal

Bureau noted that Wisconsin spending on economic development in Milwaukee was below the statewide average. Since 2006 the state has canceled two promising technology initiatives in the Milwaukee region—TechStar and the

BioMedical Technology Alliance. In 2010, a UWM study shows that City of Milwaukee job growth ranked 49th out of 50 U.S. cities.

It is true that the City of Milwaukee receives higher per capita state aid in other areas of government. Many of those aid levels are generated by the high poverty rates in the city. And the poverty rates are caused by the weak economy, which is caused by the lack of state economic development attention, which goes on and on, 'round and 'round.

NO LOSERS ... BUT, SADLY, NO WINNERS EITHER

Every economic development study since the mid-1980s has recommended that the state focus its economic development efforts on targeted exporting industries. Yet at the state level nothing has happened. To the contrary, the Legislative Audit Bureau report notes that every county in Wisconsin received some economic development funding, regardless of its needs or its economic development plan. Other than biotech, there are no industry targets as growth opportunities of the future. This demonstrates a shocking lack of imagination.

A further inhibitor in Wisconsin is that the

goals of economic development initiatives have never been precisely defined. That means it has been very difficult to make a case for any particular intervention because proponents have not said where that intervention is to take

us. Do we want 150,000 new jobs or 50,000 new jobs? Do we want all types of jobs or only jobs that require a baccalaureate or higher? Without a clear delineation of what is sought, it is much harder to build a road map for getting there.

Some of the imprecision embedded in an non-strategic “no winners, no losers” approach is due to Wisconsin politics. Economic development spending is

viewed in the Legislature as a constituent-relations fund; every legislator receives some. It is the economic equivalent of “walking-around money,” made famous in Chicago politics. The strategy also fits Wisconsin culture, perhaps a throwback to the state's socialism in the mid-20th century. David Ward, the head of Northstar Economics, refers to Wisconsin's economic development this way: “No one can move ahead unless no one is left behind.” The result is that no one moves very far.

Almost every state enjoying robust growth in jobs and incomes employs a focused cluster strategy of economic development. Colorado and Iowa are good examples of success. Such a strategy was recommended by the 2002 UW Economic Summit. A cluster strategy centers on exporting industries with above-average growth potential; an existing state job base; a

“Higher business and personal taxes, pro-union measures, increased regulation and greater liabilities do not weave a welcome mat for anyone thinking of starting a new business in Wisconsin.”

state competitive advantage, whether through research, presence of an industry-leading company; a pool of skilled workers; or transportation linkages. Despite repeated recommendations and examples of success elsewhere, Wisconsin still fails to have a targeted industry strategy. Not surprisingly, the state does not employ industry specialists for its economic development staff. Wisconsin has a reactive economic development strategy—politicians reacting to threats of lost jobs—company by company, industry by industry, and community by community.

“...all of the net job growth in the United States in the past decade has come from startup businesses.”

Note that all of Wisconsin’s great employers started here. We have traditionally grown our own economy. That is proof positive that, with smart leadership, we have the latent entrepreneurial talent to reinvent ourselves again. We believe—and this is important—that given just

a small amount of support, entrepreneurs would come out of the woodwork.

Startup businesses, like all businesses, need a good business climate, competitive personal taxes and, importantly, support teams of mentors and expert coaches. They also need early-stage capital. Instead of addressing the climate

for new businesses, Wisconsin established four tiny entrepreneurship centers. Instead of creating a venture capital fund, Wisconsin added investor tax credits, a constructive but minor program. The majority of those credits have gone to ventures in Dane County, where the unemployment rate is well below the rest of the state. Specific recommendations were also made for Wisconsin investments by Wisconsin public pension funds. Little progress has been made outside Madison. In the most recent reporting period through the first quarter of 2010, Wisconsin received only \$26 million of venture capital, the lowest amount in the Midwest. Minnesota attracted \$235 million. Even smaller Iowa attracted \$84 million—more than three times what Wisconsin received.

BIG OAKS FROM LITTLE ACORNS

According to the Kauffman Foundation, all of the net job growth in the United States in the past decade has come from startup businesses. Repeat: *all* net new jobs. Indeed, its latest analysis shows that from 1977 to 2005 young companies created an average of three million jobs per year, while existing companies reduced jobs by one million annually. Wisconsin largely fails to address this reality—both in its economic development strategies and, equally important, in its economic development studies. Neither the 1985 nor the 1997 Wisconsin studies addressed new business issues in any meaningful way. National studies differ on Wisconsin entrepreneurship rankings. In some studies, Wisconsin entrepreneurship ranks in the bottom five states. In other studies, Wisconsin ranks far below average. In no study does Wisconsin rank above average.

SUMMARY OF HISTORY LESSONS

The state’s three decades of economic slide present a paradox. Wisconsin spends generously and ranks well on the leading inputs for success—quality schools (ranking 15th), an extensive higher education system (12th), (university) technology research (13th, with Madison in the top 10), and patent rates (15th). Yet the state ranks 48th in 30-year income growth. So the failure must be due to one or more of the intangibles—a lack of consistent leadership, no formal plan or targets, political indifference to economic development spending, strategy and organization—or something that cannot be precisely measured or put into an economic formula. Whatever the factor or combination of factors, Wisconsin has evolved into a state with a poor business climate, one that is not conducive to growing the firms that a successful economy demands. And we are all the poorer as a result.



THREE IDEAS

Strategic turnaround is possible. It’s been done before—Govs. Lucey and Thompson achieved success. And there are nearby models, Iowa and Minnesota, of Midwestern states that have raised incomes and created jobs at a faster pace. With that in mind, here are three big ideas to reverse those long-term trends

1. Totally restructure economic development in an independent “charter government” model.

The Wisconsin political model for economic development has failed. The Legislative Audit Bureau found 154 different programs in 23 agencies and commissions supporting activities in every county of the state—whether they wanted or needed economic development assistance or not. There were no measures of success or failure. With no measurement system,

there was no accountability. It has been a political apparatus, not an economic development model.

The charter model is an independent, private-sector-driven organization held to accountability standards for achieving public goals. Charter schools are growing alternatives in areas of failing public schools. Charter universities free public higher education from the same type of political interference that affects economic development.

This could be called a public/private partnership, as Forward Wisconsin was in the 1980s. That underfunded partnership model in Wisconsin ended in 2005, when the state Department of Commerce took it over. In the charter structure, the governor would be the chief salesperson—but not the engineer building the model.

Wisconsin employs independent boards to run its public university system and to man-

age its natural resources. We contend that job creation rises to the same level of importance. Indeed, without a robust jobs base, nothing else works very well in today's world.

Under a new Job Creation Board, we would establish a set of cluster councils to engage the leaders of the exporting engines of the economy in a collaborative governance model. A member of the Job Creation Board and a member of the governor's cabinet would be represented on each council.

Further, a similar council would be created to address on a continuous basis the needs of the state's entrepreneurs.

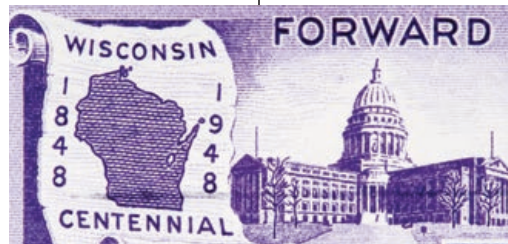
2. Create a Five-Year, \$1 billion Wisconsin Idea Fund supported by bonding authority.

A 2010 Deloitte study of Wisconsin competitiveness found that Wisconsin economic development efforts are unstructured, sometimes conflicting, lacking measurement and accountability and lacking resources. A \$1 billion Wisconsin Idea Fund would address each of those weaknesses.

The Wisconsin Idea Fund can be patterned after the successful Ohio Third Frontier Fund. That fund has enjoyed bipartisan support, and voters have twice approved bonding authority, most recently in May 2010, for a \$700 million expansion of the program. The Third Frontier fund is financed by bonding, not by current taxes. It is independently governed, with regional representation from across the state, advised by a committee of academic experts

and professionally managed. There are cluster-industry targets for investment. It supports regional entrepreneurship and venture capital growth as well as funding promising technologies within major companies. It is accountable for performance and regularly measured for success by independent academic studies.

Most important, a \$1 billion Wisconsin Idea Fund would signal to the world that Wisconsin is serious about economic development.



3. Create a Pro-Growth, Pro-Reform Political Dialogue

Bill Clinton created the Democratic Leadership Council and the Progressive Policy Institute a quarter century ago. The moderate DLC was at the forefront of the reform movement, from welfare reform to fiscal reform to school reform. It produced the New Technology Index for the United States, which identified state policies that promoted economic growth and opportunity. The last DLC event in Wisconsin is listed as 1999—just before the most recent slide in Wisconsin economic performance.

The anti-business wing of the Democratic Party chokes off public debate about business issues. One of the political surrogate groups regularly attacks any pro-business ideas as “giveaways.” They attack business leaders individually for speaking on public issues. Even pro-innovation UW-Madison Chancellor John Wiley joined the anti-business wolf pack with a published attack on the state chamber of commerce and its members.

In this hostile personal political environment, business leaders choose to quietly leave Wisconsin rather than challenge the status quo. With the state's ranking of 48th in long-term personal income growth, the phrase “will the last one out of Wisconsin, please turn off the lights?” has an added word. Please turn off the lights “quietly,” so as not to disturb the politicians.

The recent Republican efforts have been little better. Republicans are generally pro-business, but sometimes not pro-growth or pro-competition. The ideas for the 1980s Republican resurgence came from conservative Washington, D.C. think tanks. Regulatory reform came from the American Enterprise Institute. Welfare reform came from the Heritage Foundation. Today, there are few new ideas for a renewed 21st-century economy.

SUMMARY

The evidence that the world is changing is uncontested, so the Wisconsin economy must change as well. The alternative is to end up with Alabama and Mississippi as its equal in terms of incomes and educations. Wisconsin needs to step up in 2011 to create its future, rather than just let it evolve as it has been largely doing for at least the last 30 years.

Wisconsin has been on a 30-year economic slide. There are lessons from the short periods of past success and from the success of neighboring states. Numbers are stubborn things. They tell us not only that Wisconsin's relative position has declined, but that the traditional investments alone (attraction subsidies, education and training, research, real estate development) have not been successful. The intangi-

bles of the business climate must be discussed and addressed—leadership, organization, and attitudes towards business and labor.

The basics are in place. Wisconsin has a hard-working population. The workforce participation rate is well above average. Yet incomes are well below average. Wisconsin needs an ambitious plan. It needs big ideas and new attitudes for the 21st century. It needs a fundamental change in economic strategy and—note to new governor and state legislators—*Wisconsin needs bold leadership.*

DESPERATELY SEEKING A NEW TAX SYSTEM

— BY RICHARD G. CHANDLER —

Former state Revenue Secretary Rick Chandler shows us how Wisconsin's mix of taxes is constraining our capacity to create jobs and economic growth. This should be required reading for the next governor and Legislature.

AN INTRODUCTION

Imagine that there's an old guy driving down the hill in his Model T Ford. He's out of gas, the muffler has fallen off, and the tires are pretty well shot. But he's still driving because of gravity and inertia. So, as far as he's concerned, all is well with the world. Of course, he may run into a problem if he needs to climb up another hill, but that's not his problem right now.

Imagine this old guy as Wisconsin's past and present tax system. It's soaking income earners and property owners. There's a big hill coming up—the state faces a projected deficit of more than \$2 billion in the next budget. And if nothing changes, more businesses and workers, which fund the state, will head to other states, leaving fewer people to pay the bills. But, like our friend going down the hill, we still seem to be doing all right for the time being.

When we take a good hard look at where we are, it's clear that everything isn't all right. We can't afford to be complacent. Right now, Wisconsin should be doing everything possible

to promote economic growth and enhance job opportunities. An important way to help this effort is to change our present tax system.

That's because Wisconsin now has a state and local tax system that relies more heavily on the personal income tax and property tax than most other states. Wisconsin ranks about 25% above the national average on those two taxes. This is bad policy because Wisconsin relies more heavily on taxes on earnings and savings. It's also bad from a marketing perspective, because the personal income tax and property tax are the most visible and most disliked of the major taxes, and also the easiest to compare with other states. In the poll done for this project, only one-quarter (26%) of those responding believed the state's income tax was the fairest tax, and even fewer (18%) found property taxes in the state to be fair.

The plain and simple truth is that Wisconsin's economy would benefit from lower personal income and property taxes. State policymakers could work to reduce those taxes gradually over time. Alternatively, the

state could reduce them more dramatically and quickly by rebalancing the tax system to reduce the state's overreliance on the personal income tax and property tax and shift more emphasis to the sales tax, a consumption tax where Wisconsin's tax burden is currently much lower than that of most other states. The sales tax, by the way, was deemed most fair by over half (55%) of those responding in the survey.

But here is the kicker: Economic modeling shows that rebalancing the Wisconsin tax system in a revenue-neutral way to reduce personal income and property taxes could generate about 10,000 more jobs, increase per capita income up to \$400 per person, and increase investment. These are very substantial positive effects.

And from our poll, Wisconsin citizens would clearly support rebalancing Wisconsin's tax system in order to promote growth. At any given level of tax collections, a tax mix with lower personal income and property taxes would be better for Wisconsin's economy and more acceptable to the state's citizens. The people understand this. It seems our political leaders are the ones riding down the hill in that Model T.

TAXES AND JOBS

Taxes play an important role in determining a state's economic competitiveness. Virtually every major national study of state business climates refers to the impact of taxes. While

taxes are not the sole factor in determining how good a state's business climate is (clearly other factors such as workforce quality, schools, transportation and energy infrastructure, and overall quality of life are also very important), they play a major role.¹ While Wis-

consin excels in some of the areas that affect the business climate, the tax system receives poor reviews.

Wisconsin-specific studies have found that taxes significantly affect the state's business climate. A recently released study titled "Be Bold Wisconsin: The

Wisconsin Competitiveness Study," by Deloitte Consulting, concluded that high business costs, including business and personal taxes, were the third-largest obstacle to advancing economic development in Wisconsin.² Surveys of manufacturing and service company executives by Professor Jon Udell, of the University of Wisconsin–Madison School of Business, found that business and personal taxes were ranked fourth and eighth among the 20 most important factors in making location decisions, and that Wisconsin ranked most poorly on these two tax factors out of all 20 factors that were identified.³

A common misconception is that businesses only look at the corporate income tax in evaluating a state's tax climate, which clearly is not true. They also take a close look at personal income and property taxes. Another misconception is that the overall tax burden tells the whole story about the impact of taxes. A more



complete way to judge the impact of a state’s tax climate is to examine how the overall mix of all taxes affects the business climate. That should include a look at the effect of the personal income tax and property tax burden on workers and businesses. It’s more realistic ... and more honest.

GROWTH AND PROGRESSIVITY

When evaluating Wisconsin’s tax system, we should be asking two fundamental questions: First, does the state’s tax system promote economic growth while it performs its basic function of raising the revenues

needed to fund important government services? And second, if we started with a clean sheet of paper, could we design a tax system that would do a better job of producing more jobs and income for our citizens?

When tax policy analysts evaluate state tax structures, they often ignore economic impact. The emphasis tends to be on factors such as whether the tax system is progressive (meaning that it results in higher-income taxpayers paying a greater share of their income in taxes than lower-income individuals), fair and equitable (meaning that it treats similarly situated taxpayers alike), balanced (in the sense of raising revenue from a variety of sources), and administratively efficient.

We’ve tended to fixate on progressivity more than other factors. A lot of analytical effort has been devoted to this issue. For example, a lengthy 2004 Wisconsin Department of Revenue tax incidence study concluded that

Wisconsin’s tax system was progressive, with the highly progressive personal income tax offsetting the effects of a somewhat regressive property tax and sales tax.⁴

Rather than focusing on progressivity, wouldn’t it make more sense to ask whether the tax system is structured to do as much as possible to help the economy grow, and as little as possible to impede it? Isn’t it more important to provide people, especially those at the lower and middle levels of the economic spectrum, with as many job opportunities as possible?

“State and local governments in Wisconsin collect more money from the state’s citizens than those in other states.”

CHARACTERISTICS OF WISCONSIN’S TAX SYSTEM—HEAVY RELIANCE ON PERSONAL INCOME TAXES AND PROPERTY TAXES

In analyzing Wisconsin’s state and local tax system, it’s important to understand a few key pieces of background information. In 2009, total state and local tax collections in Wisconsin were \$23.7 billion. The major sources of tax revenue were property taxes (\$8.7 billion), personal income taxes (\$6.2 billion) and sales taxes (\$4.4 billion). Playing a smaller role, as in most other states, were corporate income taxes (\$630 million).⁵

State and local governments in Wisconsin collect more money from the state’s citizens than those in other states.⁶ According to the most recent U.S. Census Bureau figures, for 2008 Wisconsin ranks above average on total revenue collections from both taxes and fees as a percentage of personal income—4.4% above

the national average. The state ranks a little farther above average when we look just at tax collections without including fees—5.0% above average, which is 13th highest among the states.⁷

What’s noteworthy is where Wisconsin stands on the two largest tax sources. Wisconsin is far above average on personal income taxes and property taxes. For property taxes, the state is 23.6% above average, which is eighth highest. For personal income taxes, Wisconsin is 25.0% above average, which is 12th highest.

The fact of the matter is, Wisconsin sticks out like a sore thumb when it comes to personal income taxes and property taxes. Wisconsin ranks ninth in the percentage of total state and local tax collections from personal income and property taxes combined.⁸

Middle-income and upper-income taxpayers pay personal income taxes at a rate that’s well above the national average (in the top quarter of all states). For them, the impact is accentuated because Wisconsin’s personal income tax is highly progressive. But for lower-income taxpayers, Wisconsin ranks among the lowest-tax states (in the bottom one-third of all states).⁹

Wisconsin is actually well below average on sales tax collections (14.0% below average, or 33rd highest). Contrary to a common misconception, this is not because the state taxes fewer goods and services than the average state; in fact, Wisconsin ranks 11th in terms of

the number of services taxed.¹⁰ Rather, it’s because Wisconsin’s state sales tax rate of 5% is comparatively low (lowest in the Midwest and 31st among all states) and Wisconsin has far fewer local-option sales taxes and lower local-option sales tax rates than most other states

(the top combined state and local sales tax rate is the lowest in the Midwest and 40th among all states).¹¹

In terms of the sales tax base, Wisconsin, like most states, provides sales tax exemptions for necessities such as groceries and

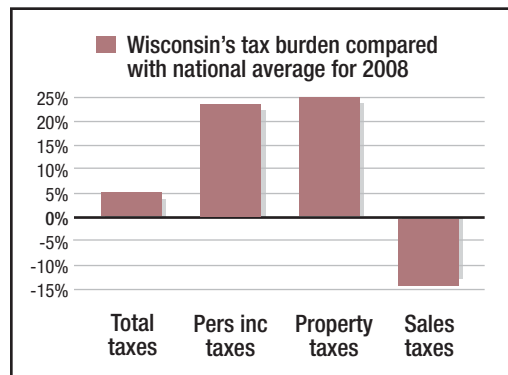
medical services and for goods and services sold to governments and charities. Like most states, Wisconsin also provides exemptions for some (but not all) goods and services sold primarily to businesses and farms; the rationale is that when business inputs are taxed, there is a pyramiding effect, with the cost of any sales taxes imposed on sales to businesses added to the costs of products that are themselves subject to the sales tax when sold to the final consumer, creating double taxation.¹²

In terms of the major tax imposed exclusively on businesses, the corporate income tax, Wisconsin tends to rank average to below average. To put this in context, corporate income taxes are very volatile, bouncing up and down depending on the state of the economy. In Wisconsin they went from \$503 million in state fiscal year 2002 to \$890 million in fiscal year 2007 before dropping to \$630 million in fiscal year 2009 after the current recession took hold.¹³



In addition, smaller businesses are often organized as partnerships, limited liability corporations, or Subchapter S corporations, which means that their earnings are taxed directly to their owners on their personal income tax returns, rather than through the corporate income tax. So, focusing just on the corporate income tax and other direct and exclusive business taxes presents an incomplete picture.

Wisconsin’s Personal Income and Property Tax Burdens Are Far Above the National Average



Putting all of this information together, the overall picture shows that by comparison with other states:

- Wisconsin gets a greater percentage of its revenues from taxes rather than fees.
- Wisconsin gets a much greater percentage of its tax revenues from personal income and property taxes.
- Wisconsin gets a smaller percentage of its tax revenues from the sales tax (because the state has a relatively low state sales tax rate and fewer local option sales taxes, not because of a smaller sales tax base).

WHERE WISCONSIN RANKS—GOOD NEWS AND BAD NEWS

Looking at the big picture, the results are mixed. On the plus side, Wisconsin’s tax burden has come down in the past two decades. In 1994, Wisconsin ranked 18% above the national average on overall tax burden (it’s now 5% above), 39% above average on property taxes (now 24%), and 52% above average on personal income taxes (now 25%).¹⁴

Wisconsin’s tax burden has dropped in large part because of two notable policy initiatives. The property tax burden was reduced due to the adoption of revenue and spending limits for schools and local governments in the 1993 legislative session, coupled with the move to two-thirds state funding of schools in the 1995 legislative session, which led to an 8% reduction in property taxes from 1995-96 to 1996-97. The personal income tax burden was reduced primarily due to an across-the-board rate cut, other tax cuts and the adoption of indexing of personal income tax brackets in the 1999 legislative session, which led to an 11% reduction in income taxes from 1999-2000 to 2001-02.¹⁵

Unfortunately, there’s some bad news as well. For those who pay attention to the overall tax burden, Wisconsin is still above average, although the percentage difference from the national average has decreased and Wisconsin’s rank among the states has improved (from third to 13th).¹⁶ But the worst news is that Wisconsin is still strikingly out of line on personal income and property taxes.

Why should we worry that Wisconsin stands out on personal income and property taxes? Because they’re the most visible, most disliked and most readily comparable taxes.

When I served as secretary of the Department of Revenue, homeowners constantly complained to me about how much more they paid in property taxes compared with relatives or friends with similar homes in other states. Business managers told me that when they were hiring workers, especially mobile middle-income workers in areas such as information technology, engineering, and research positions, they’d be told that a good salary offer for a Wisconsin job would turn out to be noncompetitive when a comparison of after-tax take-home pay with another state was made.

“Wisconsin is still strikingly out of line on personal income and property taxes.”

WHAT DOES THE PUBLIC PREFER?

As mentioned, public opinion surveys have consistently shown that the property tax and the personal income tax are the most disliked taxes. Here are the detailed results from a June 2010 statewide survey conducted by the Wisconsin Policy Research Institute:

- When asked which tax they think is most fair, 55% of respondents listed the sales tax, while 26% listed the personal income tax, and 18% listed property taxes.
- When asked which tax is most understandable, 49% said the sales tax, 24% the personal income tax and 27% property taxes.
- When asked which tax they’d most like to reduce, 54% of respondents said property taxes, 33% said the personal income tax, and 14% said the sales tax.¹⁷

People clearly know how much they pay in property and income taxes; they’re easily

able to see how much more they pay compared with residents of other states; and because they think the property and income taxes aren’t very fair or understandable, they’re upset by the fact that these taxes are so high in Wisconsin. This helps explain why Wisconsin’s “tax hell” image persists even though the state’s overall tax burden has dropped. Census Bureau figures may say the state’s tax temperature is gradually cooling, but it still feels like a “tax hell” when it comes to the taxes people notice and dislike the most.

BAD POLICY AND BAD MARKETING

Wisconsin’s overreliance on the income and property taxes is bad from both a policy and marketing point of view. In terms of policy, Wisconsin taxes earnings and savings (in the form of investment in property) more heavily than most other states, while taxing consumption less heavily. If you tax something, you get less of it. If we want to encourage earnings and savings in Wisconsin, we should tax them less.

Moreover, since Wisconsin’s personal income tax falls more heavily on middle-income and upper-income taxpayers than in other states, our already high burden is disproportionately concentrated on income producers and job deciders (people in a position to decide where jobs will be created and located). Again, this is a self-destructive policy choice.

Perhaps even worse is the impact of this overreliance from a marketing perspective. Wisconsin’s tax system has evolved so that the state is far out of line on the most visible, most

easily comparable and most disliked taxes, while being below average on the sales tax.

When it comes to sales tax payments, most people have very little idea how the rates they pay compare with other states and don't know how much they pay in total sales taxes each year. When people do think about the sales tax, they don't mind it as much as other taxes. They understand how it's calculated. They feel they have a lot of control over how much they pay, since they have discretion about what they buy. They also realize that visitors from other states—whether tourists or here on business—add to the coffers as well, just as Wisconsinites do when they visit other states.

While some tax analysts criticize the sales tax as regressive, most people don't share this concern. They seem to understand that it's not imposed on necessities, and they think that when it comes to purchases of other items, individuals with higher incomes tend to buy more and pay correspondingly more in sales tax.

HOW TO IMPROVE WISCONSIN'S TAX SYSTEM

All of this is an argument for considering changes to Wisconsin's tax system to help improve the state's economic climate. The review of where Wisconsin's tax system diverges most from other states, policy considerations and the results from public opinion surveys all suggest that Wisconsin should move away from excessive reliance on the personal income and

property tax.

This could be done in several ways. One way would be to reduce the personal income and property taxes gradually over time. Another would be to immediately shift some of the existing burden away from the personal income and property tax.

AN ECONOMIC ANALYSIS OF TAX MIX CHANGES

Economic models can be used to evaluate alternative approaches to tax system changes. We asked the Beacon Hill Institute, an independent, nonpartisan economic research organization affiliated with the Department of Economics at Suffolk University in Boston, Massachusetts, to use its state tax system economic analysis model to review several options.¹⁸



The Beacon Hill approach quantifies the effects that can be expected from tax increases or decreases. Beacon Hill explains that personal income taxes reduce wage and salary earnings, lowering income and reducing employment levels. They also reduce investment income, hurting investment levels and new business formations. Property taxes on land, structures and personal property owned by businesses hurt business investment levels, and property taxes also have the effect of discouraging home purchases. Corporate income taxes affect business investment levels. Sales taxes reduce current consumption, but reduced consumption levels today do not hurt potential economic

growth in the future, so taxes levied on consumption tend to be less economically harmful than taxes levied on income or capital.

The Beacon Hill analysis started by looking at the effects of several tax reduction alternatives: First, reducing personal income taxes by about \$800 million (about 13%); second, reducing property taxes by about \$800 million (about 9%); and third, eliminating the corporate income tax (equivalent to a roughly \$800 million reduction when the economy is strong). The income tax reductions and property tax reductions were assumed to be across-the-board reductions.

All three alternatives would result in gains in employment, disposable income, and investment over a one-year period, as shown in Table 1. The personal income tax reduction was the best at boosting jobs and income, while the corporate income tax cut provided the biggest boost to investment. Of course, while the economic benefits of these changes are obvious, they would require the state to cut spending by \$800 million, which would be difficult at this point due to the state's ongoing difficulties with balancing the state budget.

Table 1—What Do You Gain When You Cut Taxes by \$800 Million?

Tax Change	Cutting personal income tax by 13%	Cutting property tax by 9%	Eliminating corporate income tax completely
Employment	+ 15,956 jobs	+ 3,834 jobs	+ 6,270 jobs
Personal income	+ 1.120 billion	+ 141 million	+ \$637 million
New investment	+ \$23 million	+ \$380 million	+ \$1.058 billion

In an effort to find an optimal combination of personal income, property, and corporate income tax changes that would not require state budget cuts beyond those that may otherwise

be necessary to balance the budget, Beacon Hill looked at a revenue-neutral combination package, which involved reductions over a one-year period in all three of these taxes, offset by a sales tax rate change.

The package included a personal income tax cut of 13%, a property tax reduction of 9% and a corporate income tax cut of roughly 50%, for a total cut of about \$2.0 billion, offset by a 2.5-cent sales tax rate increase. This combination was found to increase employment by 9,960 jobs, disposable income by \$410 per person, and investment by \$1.4 billion, as shown in Table 2.

It should be emphasized that this is a revenue-neutral package, meaning that while some taxes go down and others go up, it does not result in a net overall increase or decrease in total state tax collections. Overall tax collections would stay the same, but the tax structure would become significantly more growth-friendly.¹⁹

Table 2—What Do You Gain When You Change the Tax Mix?

Tax Change	Cutting personal income tax by 13%, cutting property tax by 9%, cutting corporate income tax by 50%, but adding 2.5 cents to the sales tax rate
Employment	+ 9,960 jobs
Personal income	+ \$2.471 billion [+ \$410 per capita]
New investment	+ \$1.430 billion

TAX MIX CHANGES PRODUCE DRAMATIC BENEFITS

To highlight the benefits, a well-structured, growth-friendly, revenue-neutral tax mix change is projected to result in a gain of almost 10,000 jobs, income gains of more than \$400 per person, and substantial

investment increases.

These are dramatic gains. To put them in perspective, if a Wisconsin employer announced that it was creating 10,000 new jobs in the state, it would make front-page headlines. If the state government announced tax cuts for individuals that would put an extra \$400 in every person’s pocket, it would be hailed as a major accomplishment. Finding ways to increase investment in Wisconsin’s businesses has been a long-standing goal of state policymakers, and this proposal would result in a significant increase in investment.

Wisconsin’s emphasis on progressivity above other factors in designing the state’s tax structure has cost the state jobs and wealth. Changing the tax structure with an increased emphasis on boosting jobs and incomes would produce dramatic benefits.

PROS AND CONS OF TAX MIX CHANGES

There are strong arguments based on economic theory in favor of changing Wisconsin’s tax system to bolster economic growth by reducing personal income and property taxes. The premise is that all tax sources are not created equal; some have more damaging effects than others, while there are changes in the tax mix that can actually help the economy. The Beacon Hill economic analysis model shows that taking the positive cues would result in tangible economic benefits to Wisconsin citizens.

Perhaps just as important, this move would have strong public support. Wisconsinites would approve a shift in the tax mix. When

asked if they would support or oppose raising the state sales tax by 2 cents to 7 cents on the dollar to reduce everybody’s property taxes by 20%, 60% of respondents said they’d approve, and 40% were opposed. When asked if they’d support a 2-cent sales tax increase in return for a 25% personal income tax cut, 56% said they’d approve, and 44% were opposed.²⁰

“Economic analysis tells us that a tax mix change would boost employment, incomes and investment.”

There will be arguments against this approach. One argument is that if we raised the sales tax, the additional revenue would just be spent rather than being used for tax reduction. But this won’t happen if a plan is structured properly, with

appropriate spending restrictions. When additional revenues were devoted to school aids when the state moved to two-thirds funding of schools in the 1990s, property taxes ended up 10% lower than they would otherwise have been because school revenue limits were in place.

Another argument against this restructuring is fairness—that is, a highly progressive tax system is needed for reasons of equity. But even after Wisconsin’s tax mix is adjusted to put less reliance on the personal income and property tax, the tax system would still be progressive. We’d be reducing a regressive tax (the property tax) and we’d still be getting a substantial share of revenues from the highly progressive personal income tax.

One more argument is that sales tax payments are not deductible on federal personal income tax returns for people who itemize deductions, whereas personal income and prop-

erty taxes are. The Beacon Hill model took this into account and still showed significant increases in net income. The impact of the deductibility issue is less substantial than it might appear at first glance because many Wisconsin taxpayers do not itemize deductions on their federal income tax returns, because businesses can deduct their sales tax payments as business expenses, and because a significant portion of sales taxes is paid by out-of-state residents—certainly more so than with personal income or property taxes.

WHAT ARE OTHER STATES DOING?

Wisconsin can’t afford to stand still. Other states are reviewing their tax systems with the express goal of developing changes to promote economic growth, and several of them have discussed changes that would reduce taxes on earnings and savings.

As one example, in Minnesota, the Governor’s 21st Century Tax Reform Commission appointed by Gov. Tim Pawlenty issued a report in 2009 that recommended that the state eliminate the corporate income tax and make other changes, including targeted personal income tax reductions for “pass-through” business income, and in exchange expand the sales tax. The commission noted that “income taxes tend to penalize success, which discourages incremental savings and business investment, which in turn stifles job creation and economic growth,” and said that “consumption taxes, such as the sales tax, are generally preferable because they are less volatile, cheaper to administer, and encourage saving and investing.”²¹

CONCLUSION

Wisconsin policymakers should be considering every possible option to improve the state’s business climate, create jobs, and accelerate economic growth. One component of this should be a review of our tax mix, with reductions in the overall tax burden when possible, and adjustments to our tax mix to optimize growth.

At whatever level of tax collections Wisconsin chooses, a tax mix that would collect less from personal income and property taxes and more from sales taxes would simply be better. It makes sound policy sense because it reduces taxes on earnings and savings. It would help in marketing the state to workers and businesses, who strongly dislike high personal income and property taxes, and would help combat Wisconsin’s “tax hell” reputation.

Economic analysis tells us that a tax mix change would boost employment, incomes and investment. Survey information tells us that the public would support a change. A tax mix change would help Wisconsin’s economy and make the tax system more acceptable to Wisconsin citizens. And in an era where there is great public distrust of government along with strong negative feelings towards incumbents both here and in Washington, this is a change that would have broad public support. That’s something worth noting for our future lawmakers.

Endnotes

¹ See the following studies, among others: CNBC Special Report, “America’s Top States for Business,” featured in USA Today, “Texas beats Virginia for best-business title,” July 14, 2010, p. 2B (Wisconsin ranked 29th, and factors evaluated included tax burden, including taxes on individuals, property and businesses); Chief Executive Magazine,

“Best and Worst States for Business 2010,” May/June 2010 (Wisconsin ranked 42nd, and factors evaluated included taxation and regulation, on which Wisconsin received a grade of D); Forbes Magazine, “Best States for Business,” September 23, 2009 (Wisconsin ranked 48th, and factors evaluated included taxes).

²Deloitte Consulting, LLP and Newark Knight Frank, “Be Bold Wisconsin: The Wisconsin Competitiveness Study,” prepared for the Wisconsin Economic Development Association, the Wisconsin Counties Association and Competitive Wisconsin, Inc., July 2010.

³Professor Jon Udell, University of Wisconsin—Madison School of Business, “Wisconsin’s Quality of Life as Seen by Manufacturers and Service Providers: A Study of the Quality of Business and Personal Life in Wisconsin,” November 2000.

⁴Wisconsin Department of Revenue, “Wisconsin Tax Incidence Study,” December 16, 2004.

⁵Wisconsin Taxpayers Alliance, “The Wisconsin Taxpayer,” “2009 in Review: Total Wisconsin Taxes,” November 2009.

⁶The rankings in this paper are based on taxes and fees paid as a percentage of personal income, the approach that’s generally recognized as providing the best measure of the impact of taxes and fees on people’s pocketbooks. The rankings would be generally similar but with some small differences if the tax burden was measured on a per capita basis.

⁷The rankings for 2008 for various tax and fee sources are all from the Wisconsin Taxpayers Alliance “Focus” newsletter, “New Census figures change state tax rankings,” July 28, 2010, using U.S. Census Bureau data. The rankings for the major tax sources are listed in the paper. For fees and charges, Wisconsin ranks 2.5% above average, which is 29th highest.

⁸Wisconsin Taxpayers Alliance, “The Wisconsin Taxpayer,” “Challenges Facing State Voters in 2010,” June/July 2010.

⁹Office of the Chief Financial Officer of the District of Columbia, “Tax Rates and Tax Burdens in the District of Columbia—A Nationwide Comparison,” September 2009, and Center on Budget and Policy Priorities, “The Impact of State Income Taxes on Low-Income Families in 2009,” April 26, 2010.

¹⁰Federation of Tax Administrators, “Survey of Services Taxation,” July 2008.

¹¹Federation of Tax Administrators, “State Sales Tax Rates,” February 2010, and Office of the Chief Financial Officer of the District of Columbia, “Tax Rates and Tax Burdens in the District of Columbia—A Nationwide Comparison,” September 2009.

¹²Wisconsin Department of Revenue, “Summary of Tax Exemption Devices,” February 2009.

¹³Legislative Fiscal Bureau Informational Paper 5, “Cor-

porate Income/Franchise Tax,” January 2009.

¹⁴Legislative Fiscal Bureau Informational Paper 69, “State and Local Government Revenue and Expenditure Rankings,” January 2009.

¹⁵Legislative Fiscal Bureau Informational Paper 69, January 2009.

¹⁶Legislative Fiscal Bureau Informational Paper 69, January 2009.

¹⁷Wisconsin Policy Research Institute statewide survey of Wisconsin citizens, June 2010.

¹⁸The Beacon Hill Institute uses a computerized general equilibrium model that provides a framework for quantifying the effects of proposed tax changes on an array of state economic indicators, including employment, income and investment.

¹⁹Other combinations of tax mix changes were reviewed by the Beacon Hill Institute. The employment, income and investment benefits of those packages will be posted on the Wisconsin Policy Research Institute website at www.wpri.org.

²⁰Wisconsin Policy Research Institute statewide survey of Wisconsin citizens, June 2010.

²¹Governor’s 21st Century Tax Reform Commission, “Minnesota’s Millennium: Launching a New Generation of Competitive Leadership and Economic Growth,” February 13, 2009.

GROWING ANGER OVER FREE GOVERNMENT PENSIONS

BY WPRI STAFF

How could one dry paper written by an actuary create an uproar? The people at WPRI explain that it’s really not that difficult when the paper points out a fundamental unfairness between your pension and your neighbor’s—if he or she happens to be a state worker.

Early in the winter of 2010, the Wisconsin Policy Research Institute published a somewhat dry, technical actuarial study that proved to be surprisingly incendiary.¹ That report featured a relatively innocuous comparison between public and private pensions and concluded by suggesting that now might be a prudent time to reform the Wisconsin Retirement System. From public employee unions came the predictable strident response: no pension reform, no way, no how, not now, not ever. But the response from the public was quite different. Letters, phone calls and blogs told us that our report verified what they always believed: that public pensions in Wisconsin are out of line with fiscal realities.

That report, authored by Joan Gucciardi, a Milwaukee-based actuary, detailed that Wisconsin’s pension system—which includes all state and local workers from maintenance workers to university faculty and local teachers—is overly generous, especially when compared to pensions provided by private-

sector employees. It is generous in the benefits it provides to retired employees, and it is especially generous in that it asks employees to contribute nearly nothing to fund their retirement. More than 99% of the cost is picked up by state and local taxpayers.

Taxpayers who work in the private sector and support these public employees are often matched in their payment—in other words, for every dollar they put into their retirement fund, their employer will match it with anywhere from 50 cents to a dollar, which is considered generous.

Public employees and their union leaders had a ready answer for the public. They said that public employees had forgone pay increases year after year, which justified their generous pensions. A generous pension, it seems, was a key part of their social contract with Wisconsin citizens. However, when we put the question to the public, we received a clear and very different message. The question in our statewide poll for this project conducted

in June 2010 asked:

“Some people say that it’s understandable that public employees don’t contribute to their pensions because public-sector salaries are lower than salaries paid in the private sector.

Other people say that public employees should contribute to their own pensions like everyone else. Which better describes how you feel?”

- 17% said that it is understandable that public employees don’t contribute to their own pensions
- 76% said that public employees should contribute to their own pensions

Most surprising was that the 76% came from across the board. It seems all of Wisconsin supports a change that would have public employees contribute to their pensions.

Conservatives and liberals think they should contribute. Blacks, whites and Hispanics think they should contribute. Even people in union households told us that public employees should contribute to their own pensions. In this recap, we will revisit some useful information from that original WPRI pension study and lay out a path that will lead to pension reform in Wisconsin.

THE GROWING IMBALANCE BETWEEN PRIVATE AND PUBLIC PENSIONS

OK, so the public is unhappy with public pensions. Isn’t there always going to be tension between the taxpayers and public employees? Doesn’t the public blow out of proportion ev-

ery real or perceived inefficiency at the DMV or the City Clerk’s Office? Do we criticize public employees for the same behavior we see at our own place of work every day? And is this general animosity toward public employees what we are picking up in WPRI’s polling of public pensions?



While there likely is a historical animus toward the public-sector workers on the part of some people—both fair and unfair—our polling suggests a deeper and a wider divide than that. So what might explain the current raw nerve related to public employee pensions? There are probably two factors at work.

First, the pensions provided to public employees are substantially more generous than those provided to private-

sector employees. It has not always been that way. Private-sector employers, buffeted by a barrage of national and international economic forces, have been forced to cut back on all of their costs, including employee pensions. Since the 1970s, private employers have moved away from the costly defined benefit plans—those that are similar to Wisconsin’s public pension plan—to less costly defined-contribution plans. In a 2009/2010 survey of Wisconsin and Illinois, only 8% of employers offered defined benefit plans. By contrast, 88% offered defined contribution plans. The most common form of defined benefit plans is the 401(K). Most such plans are employee sponsored, with the employees deciding on their own whether they

wish to contribute to the plan.

There is no disguising the fact that defined benefit plans are more popular with employees since, when employers adopt defined contribution plans, employee contributions almost always go up and much more of the investment risk is shifted to the employees. With the recent decline and subsequent sluggishness of equity markets, private-sector employees have felt the sting of that added risk. Retirement dates have been pushed back, and cold water has been thrown on retirement lifestyle expectations.

While private-sector employees are seeing their retirement date pushed further into the future, Wisconsin public employees regularly retire well before their 65th birthday. The WPRI study showed that, for the Wisconsin Retirement System, the rate of retirement was significantly higher for those younger than 65. For example, 24% of 58-year-old men in the Wisconsin Retirement System who were eligible for retirement did retire.

In addition to retiring younger, Wisconsin public employees have richer retirement benefits. The WPRI study compared benefits side-by-side and found that the private-sector worker would need a salary of \$70,000 to have retirement benefits comparable to a public employee earning \$48,000.

Finally, the study compared how the cost of pensions is shared between employers and employees. The average private employer

contributes 5.3% of payroll toward employee pensions. Contrast this with the estimated 11.1% of payroll Wisconsin public employers (taxpayers) are contributing toward employee pensions. Through collective bargaining, public employers have agreed to pick up all but .06% of the cost of employee pensions.

Pensions have become an issue of fairness. While private workers have seen their retirement plans wither away, Wisconsin public employees are retiring earlier, have far better retirement benefits and pay almost nothing for all of it. In this context, we can begin to understand the universally strong feelings that our polling is picking up regarding public employee pensions, to say nothing of the fact that taxpayers are paying for it all.

There is another aspect of the public pension system that bears discussion. In responding to the WPRI study, public employee unions as well as individual employees consistently raised one point. They argued that, while their pensions are indeed comparatively generous, they deserve better pensions because for many years they have sacrificed higher pay increases for better pension benefits, sort of an implied deferred-compensation plan. Any change to either the employee contribution or any other elements of their pension would be tantamount to renegeing on the deal. Implicit in this line of reasoning is that, unlike their private-sector counterparts, public employee pensions can only be enhanced, never diminished. This is,

“The public no longer sees public employee pensions as inviolable and it places pension reform high on the list of budget solutions.”

however, incorrect.

To public employees, their pensions have been a rock-steady element in an uncertain world. Through boom and bust economies, through changing political leadership, not to mention enormous changes in the very nature of public service, pensions have been a comfort in their predictability. The WPRI study showed how public pensions have been subjected to relatively few changes in recent decades, especially compared to their private-sector counterparts. However, that is changing. Across the nation, state and local governments are challenging the precept that pension benefits cannot be reduced. Notably, Colorado, Minnesota and South Dakota are attempting to roll back benefits. California, Illinois and New Jersey are also actively considering benefit reductions. The era of public pension stasis is over.

More than anything, what will drive change in public pensions is the depressed condition of state and local government balance sheets. With normally reliable revenue streams drying up in the wake of the recession, government is grappling with how to balance an overextended budget. Local schools are sending lay-off notices to teachers by the thousands. Wisconsin state government struggles to meet its commitments, relying on furloughs and other temporary measures to make it through the current year. And it will get worse, since we know that state government faces a \$2.5 billion deficit in

the next two-year budget. Some of those other states are in even worse shape—at least for the time being.

In the context of the looming budget deficits and pension changes sweeping governments throughout the land, the implied commitments made to earlier generations of public workers ring hollow. That was then and this is now. The public no longer sees public employee

pensions as inviolable and it places pension reform high on the list of budget solutions.

“Wisconsin’s public pension system seems extravagant and more than a little unfair. The public is ready for change.”

Three Recipes for Pension Change

Before we move to the consideration of changes to Wisconsin’s pension system, two clarifications are in order. First, any changes

would not affect the benefits employees have already earned. They would affect the pension for those employees in the future and for any new hires. Second, the Wisconsin Retirement System is well funded, especially when compared to other public pension systems. While many public pension systems not only face the burden of paying for their current pensions, they also have to make up for past underfunding of pensions. The Pew Center on the States pegged the nationwide unfunded pension liability at \$1 trillion earlier this year.² Many states face the double whammy of having both generous public pensions and an underfunded pension plan. This dual obligation poses a crushing burden for many pension systems. The Pew study found Wisconsin’s pension sys-

tem as having an unfunded liability of less than 1%. What was unsaid in that study was that Wisconsin’s top-notch ranking is due in part to the infusion of \$750 million of bond proceeds that the governor and Legislature authorized in 2003. This transaction had the effect of transferring the unfunded liability from the pension system to mainstream state and local budgets.

Turning our attention to specific fixes, there are three categories of changes to the Wisconsin Retirement System that should be considered. First are a series of **technical adjustments** to the current system, which were detailed in the WPRI study. These included changing the way in which employee earnings are calculated (earnings are a key determinant of retirement benefits), increasing the retirement age closer to the rest of the population, integrating benefits with Social Security and reducing the multiplier, which would reduce the definition of adequacy. These and other changes were presented in that report, each of which could be done by changing state law. Collectively the changes would tighten the factors that determine retirement benefits, which would yield savings to public employers (taxpayers). The exact savings would depend on how aggressive the changes are.

The second category of change would have **employees paying their share of the cost of their pension**. Most public pension plans require contributions from both employees and

employers. Wisconsin is no different. State law requires that employees pay approximately one-half of the cost of their pension. However, Wisconsin law includes a longstanding provision that allows public employers to pay some or all of the employee share. Over time, both state and local employers have agreed to pay all but a tiny (less than ½ of 1%) share of the cost. If the statutes were changed to prohibit the employer from paying the employee share, state and local employers (taxpayers) would realize significant savings. The WPRI study said the savings could be as high as \$619 million per year. This would not change when people are eligible to retire nor would it reduce the generosity of retirement benefits.

The third category of change would require major surgery: **moving from a defined benefit to a defined contribution system**. Such a change would bring Wisconsin’s pension system more in line with the retirement plans offered to most private-sector workers. The way it would work is that the current defined benefit plan would be frozen on a particular date. Where this change has been made, after the specified date, any new employees are placed into a defined contribution plan, and no new people would be allowed into the old defined benefit plan. While some private pension plans have moved all employees into the new defined contribution plan, no public plans have made the conversion for existing employees.



While there could be savings to taxpayers if Wisconsin were to convert to a defined contribution plan, the savings are not guaranteed. Regardless of which system is in place, the savings would depend on how much employers contribute to the plan. If the employer contributes 5% of payroll to pension benefits, there is no cost difference if the contribution is to a defined benefit or a defined contribution plan. The big difference would be the allocation of risk. Under a defined contribution plan, the investment risk rests with the employee. If the retirement fund investments prosper, employees would accumulate more value in their account, allowing them to retire earlier or to retire with benefits that are more generous. If investments do not prosper, employees would likely work longer and their retirement benefits would be lower. Also of note is that converting to a defined contribution plan would require state and local governments to operate two retirement systems, since the existing retirement system would need to be maintained, even if there can be no new enrollees in that plan. In short, any move to convert to a defined contribution plan has advantages and disadvantages. In any event, a thorough analysis of defined benefit plans is in order.

There is something about the topic of pensions that makes people wince and turn away. The topic is fraught with mind-numbing technical detail, impenetrable jargon and very large dollar amounts. Given the current state of the economy and the condition of state and local government budgets, the public, while still wincing, is no longer willing to turn away. At a time when Wisconsin families are enduring financial uncertainty and we are reconciling

ourselves to a new, more austere reality, Wisconsin's public pension system seems extravagant and more than a little unfair. The public is ready for change.

At a minimum, employees should begin to pay for part of the cost of their own pensions like everyone else. This would yield real savings—as much as \$619 million per year—for state and local governments. Beyond that, our next governor has to take a serious look under the hood of Wisconsin's pension system and address some fundamental questions about benefit levels and retirement age. Finally, we also need to have a serious discussion about moving to a defined contribution system. This is a deeper discussion than dollars. It is a discussion that will ultimately turn on what is the right relationship between public workers and their employers, the taxpayers.

Endnotes

¹ This essay is based on information presented in a WPRI Report, *The Imbalance Between Public and Private Pensions in Wisconsin*, authored by Joan Gucciardi, February, 2010.

² Pew Center on the States, *The Trillion Dollar Gap, Underfunded State Retirement Systems and the Road to Reform*, February, 2010.



Polling Details

PUBLIC VOICES: WISCONSIN'S MIND ON EDUCATION

— BY KENNETH M. GOLDSTEIN AND WILLIAM G. HOWELL —

A major part of the poll done for Refocus Wisconsin concentrates on education. The reason is simple: If a state can't prepare its young for a future in a more complex world, then that state has no future. As UW Professor Ken Goldstein, who led the polling, and University of Chicago Professor William Howell explain, the people of Wisconsin understand this, even if their leaders don't.

Americans are notoriously ill informed about politics and public policy in general, and education policy in particular. But the most striking finding on education from the survey done for the *Refocus Wisconsin* project was that citizens of Wisconsin are paying attention—close attention—and have strong opinions when it comes to education. Wisconsin residents are much more likely to stake out a clear position on various education policies than is the American public as a whole.

The survey done for the *Refocus Wisconsin* project was a comprehensive examination of state attitudes. It permitted us to examine statewide opinion with a much larger and statistically precise sample than is normally available and also allowed us to compare attitudes across different areas of the state and among different demographic groups.¹

Perhaps most importantly, the poll also was designed to permit comparisons of the views of Wisconsin to the rest of the nation when it

comes to evaluating schools and potential reforms.² Add to that the fact that we are able to compare public attitudes and perceptions with objective facts about the state of education in Wisconsin, and what you have here is a valuable and comprehensive look at Wisconsin's thinking when it comes to educating its young.

Over half of Wisconsinites (51 percent) told us that they were paying either “a great deal” or “quite a bit” of attention to issues involving education. In national surveys, 38 percent of the American public as a whole pay either “a great deal” or “quite a bit” of attention to issues involving education. When asked about specific education reforms, moreover, Wisconsinites are as much as five times more likely to stake out a clear position either in support or opposition than is the American public. Assuming such differences aren't strictly an artifact of survey methodology, a possibility we will discuss, Wisconsinites seem to pay more attention to educational issues

and reveal a greater willingness to offer their opinions on education and potential reforms. In other words, when it comes to education, the people of Wisconsin have strong views, and that makes them different from the rest of the country.

Wisconsin residents reported higher levels of support for a variety of reforms—in particular vouchers, charter schools, online education, and merit pay—than does the nation as a whole. That said, opposition to these reforms was also as high as or higher than in the nation as a

whole. Though they give their local schools slightly lower grades than does the American public, Wisconsin residents also claimed (correctly) that their students perform as well as or better than students in other states on standardized tests. And Wisconsin residents are just as enthusiastic about student accountability requirements as is the American public. Wisconsinites have another thing in common with their fellow Americans: They vastly underestimate the actual amount of money that is spent each year on students in public schools.

There is another important element that can be taken from this poll. The divide between residents of Milwaukee and the rest of the state is deep. When asked about the quality of education in the state, Milwaukee residents offered significantly lower assessments than residents statewide. In addition, city of Milwaukee residents distinguish themselves from other Wisconsinites for their higher levels of support

for various education policy reforms.

ASSESSMENTS OF SCHOOL QUALITY —WISCONSIN'S TOUGH GRADERS

A variety of studies have shown that when asked about the quality of public schools, respondents typically offer higher evaluations of the schools in their communities than they do with the schools in their state or in the nation as whole. For example, respondents nationwide are more than twice as likely to give the schools in their own communities an “A” or “B”

than they are the schools elsewhere. Wisconsin residents offer similar assessments, though the differences attenuate somewhat. Whereas about half (48 percent) of Wisconsin residents give the schools in the state as a whole an A or a B, fully 60 percent give the schools in their own communities such high marks.

At the same time, Wisconsin residents offered slightly lower evaluations of their local public schools than do respondents nationwide. Though the two groups are equally likely to give the schools in their communities an A or a B (60 percent for Wisconsin residents, 59 percent nationwide), Wisconsin residents are significantly more likely to offer marks at the very bottom of the grading spectrum. Almost twice as many residents of Wisconsin rate the schools in their communities a D or an F (13 percent), compared to 7 percent nationwide. But Wisconsin residents are roughly 9 percentage points less likely to give their community



schools a C. What is emerging here is that Wisconsin residents are less likely to fall in the middle of the road on these issues...they are both more positive and more negative than the rest of the country.

When explicitly asked about the relative quality of education systems around the country, however, Wisconsin residents registered higher levels of support for their local schools. Almost four in 10

(37 percent) of Wisconsin residents said that “the quality of the K-12 education system in Wisconsin” was higher than that in other states, and a similar proportion (42 percent) believed that it was about the same. Only 11 percent thought it was worse than in other states. Similarly, most Wisconsin residents thought that students in their states score at least

as well on standardized tests as do students in the rest of the country. About one in three (34 percent) of Wisconsin residents thought that Wisconsin students scored better, and a little less than half (47 percent) believed Wisconsin students score about the same. Only 13 percent of Wisconsin residents believed that state students score worse than students nationwide.

These assessments are roughly consistent with the facts. In the 2009 National Assessment of Educational Progress (NAEP) tests,³ Wisconsin students consistently performed above the national average but below the most elite states (e.g. Massachusetts, which ranks at the very top). Fourth-grade students in

Wisconsin ranked 15th in math, with a state-wide average scale score that was statistically significantly different from the national average of 239. In reading, fourth-graders ranked 30th, generating scores that were no different from the national average. Wisconsin students in eighth grade scored higher than the national average in both subjects, placing 14th in math and 21st in reading.

As noted above, most studies show that people tend to be more enthusiastic about their local schools than those found in their state or the country as a whole. Milwaukee residents, however, buck this trend, giving schools in the state higher grades than schools in their own community. Over one in five (21 percent) of Milwaukee residents gave their local schools a failing grade. In

the rest of the state, only one percent of residents gave their local schools a failing grade. Residents of the city of Milwaukee also were much more likely to see their schools as a major problem. Nearly half of city of Milwaukee residents (47 percent) gave Milwaukee Public Schools a poor rating, and only three percent rated MPS as doing an excellent job. Finally, while 37 percent of Wisconsin residents said that “the quality of the K-12 education system in Wisconsin” was higher than that in other states, only 17 percent of the city of Milwaukee residents rated Wisconsin’s system higher than other states. And, whereas 34 percent of state residents thought that Wisconsin students

“More than the rest of the state, Milwaukeeans also tend to see the best and brightest as leaving Wisconsin for employment reasons and are more likely to anticipate their own departures.”

did better on standardized tests than students in other parts of the country, only 14 percent of Milwaukee residents thought so.

The tendency of respondents to grade local life or conditions differently than state or national conditions, moreover, carries over into other domains of life. For example, while only one in three Wisconsinites (34 percent) think the state is on the right track, 40 percent believe the country is headed in the right direction. Additionally, Milwaukeeans are less likely to believe the quality of life in Wisconsin is higher than in other states (19 percent). More than the rest of the state, Milwaukeeans also tend to see the best and brightest as leaving Wisconsin for employment reasons and are more likely to anticipate their own departures.

CHOICE IN EDUCATION: VOUCHERS, CHARTER SCHOOLS, AND ONLINE EDUCATION

Wisconsin has had as much experience with school choice as most other states in the union, if not more. Milwaukee continues to operate the nation’s oldest voucher program. Wisconsin was among the early adopters of charter schools and has enacted reasonably strong charter legislation.⁴ And a vibrant community of virtual schools operates in Wisconsin. It is no surprise, then, that Wisconsin residents were much more likely to stake out clear positions on vouchers, charter schools, and online education, no matter how these proposals are formulated. And for the most part, Wisconsin residents expressed higher levels of support for these choice initiatives than does the broader American public. Within Milwaukee, moreover, support for school choice reaches its apex.

When asked in the *Education Next*-PEPG surveys about a proposal “that would give low-income families with children in public schools a wider choice, by allowing them to enroll their children in private schools instead, with government helping to pay the tuition,” 40 percent of the American public professes support, 34 percent expresses opposition, and 27 percent claims to neither support nor oppose. Using the exact same question wording, among Wisconsin residents, support jumps to 48 percent and opposition to 42 percent, and the middling category drops to just 10 percent.⁵ Among residents of the city of Milwaukee, support for vouchers is even higher. There, nearly six in 10 (59 percent) residents support vouchers, whereas just 28 percent oppose them. Again, there are fewer people with no opinions.

Though they often function much like tuition-assisted voucher programs,⁶ tax credit programs tend to attract higher public support than do voucher programs. Whereas 40 percent of the American public supports vouchers for low-income families, 60 percent supports programs that “offer a tax credit for educational expenses (fees, supplies, computers, and tuition to low- and moderate-income parents who send their children to public and private schools.” Moreover, 46 percent of the American public supports tax credits “for individual and corporate donations that pay for scholarships to help low-income parents send their children to private schools.” In Wisconsin, support for both of these kinds of tax credits is even higher. Sixty-four percent of Wisconsin residents supported the former kind of tax credit, and 62 percent supported the latter. In the city of Milwaukee, support for these

proposals is stronger still, with 64 percent of residents supporting the tax credit program for low- and moderate-income parents, and more than three in four (76 percent) supporting a program in which individuals and corporations would receive a tax break for contributing to scholarships for low-income parents to send their children to public school.

Support for charter schools both around the nation and in Wisconsin follows a similar pattern. Told that “many states permit the formation of charter schools, which are publicly funded but are not managed by the local school board,” and that “these schools are expected to meet promised objectives, but are exempt from many state regulations,” 40 percent of the American public professes support, 14 percent opposition, and 37 percent neither support nor opposition. In Wisconsin, by contrast, there is significantly more support and opposition. By a factor of nearly two, however, supporters of charter schools outnumber opponents in Wisconsin (54 percent to 28 percent). Notably, Wisconsinites are much more likely to have an opinion on the issue, with only 12 percent of residents saying they neither support nor oppose voucher program. Support for charter schools is also high in the city of Milwaukee, where 57 percent of residents support charter schools and 29 percent oppose them. Interestingly, there are no significant differences in attitudes on these measures across other areas of the state.

Online education, at least when it is used to expand the array of course offerings to students in rural communities, enjoys widespread support. In 2008, 64 percent of the American public expressed support for giving credit to students from “communities [that] have access

to only a limited number of course offerings in the schools” who take courses over the Internet. Two years later in Wisconsin, a virtually identical 63 percent of residents expressed their support. In Milwaukee, more than two out of three city residents (67 percent) did so. As in previous measures, though, opposition to particular education reforms also appears higher in Wisconsin than in the nation as a whole. Whereas 13 percent of the American public opposed online education for rural schools in 2007, 23 percent of Wisconsin residents do so in 2010. And once again, a greater portion of the American public than the Wisconsin sample selected the middling category of “neither support nor oppose.”

MERIT PAY AND TEACHER TENURE

Debates over merit pay and teacher tenure also appear more engaged and polarized in Wisconsin than they do in the rest of the country. Much of the American public has not yet made up its mind about the value of either merit pay or teacher tenure. That’s not the case in Wisconsin, where residents, once again, are perfectly willing to stake out a clear position on these controversial issues. As a result, on both of these issues the Wisconsin public is much more divided than the American public as a whole. Depending upon the question asked, the American public is somewhere between three and nearly five times more likely to “neither support nor oppose” policies involving merit pay and teacher tenure. And in every instance, Wisconsin residents registered higher levels of both support *and* opposition than the American public.

A majority of Wisconsin residents (53 percent to 33 percent) supported merit pay—that

is, the practice of “basing a teacher’s salary, in part, on his or her students’ academic progress.” Among the American public as a whole, there exists a mere plurality of support (43 percent to 27 percent). Again, we find further evidence that Wisconsinites are more engaged in education policy, as Americans as a whole were three times more likely than Wisconsin residents to select this middling category.

On the issue of teacher tenure, this pattern of findings is even starker. While just over one in three (35 percent) Wisconsin residents supports offering tenure to teachers, only one in four Americans nationwide does so. But Wisconsin residents are also twice as likely to oppose tenure as members of the American public. Fully half of Wisconsin residents oppose tenure, compared to 23 percent of the American public. The reason for this apparent contradiction, again, is the striking difference in the percentage of Wisconsin residents who are willing to stake out a clear position on this issue. While almost half (47 percent) of the American public claimed to “neither favor nor oppose” tenure, only 11 percent of Wisconsin residents did so. There is more support for teacher tenure in the city of Milwaukee, with a narrow plurality (43 percent to 41 percent) of city residents supporting tenure.

When asked about a proposal that “would require teachers to demonstrate that their students are making adequate progress on state tests in order to receive tenure,” 56 percent

of Wisconsin residents and 51 percent of the American public express support, as compared to 29 percent of Wisconsin residents and 20 percent of the American public who oppose the policy—again, showing less middle ground in the state. When asked about a proposal to “offer teachers a higher salary in exchange for giving up tenure,” 36 percent of Wisconsin residents responded affirmatively, as compared to 30 percent of the American public; on this

same item, though, 40 percent of Wisconsin residents also voiced opposition, as compared to 23 percent of the American public. On both questions, the American public as a whole is roughly three times more likely to “neither support nor

oppose” the proposed amendment to current tenure practices than are Wisconsin residents.

SCHOOL SPENDING

Americans tend to underestimate vastly the amount of money spent on public schools. In 2007, an *Education Next*-PEPG survey asked respondents to estimate how much is spent each year on public school students. The average per-pupil spending estimate from respondents was \$4,231 dollars, and the median response was just \$2,000. At the time this survey was fielded, actual average spending per pupil exceeded \$10,000.⁷

Wisconsin residents similarly underestimate actual expenditures on public school students.⁸ Though actual annual per-pupil expenditures in Wisconsin surpass \$12,000,⁹ those Wiscon-



sin residents who were willing to hazard an estimate claimed they thought expenditures amounted to just \$6,400, on average.¹⁰ The median estimate was \$5,000. Moreover, exactly one in four Wisconsin residents thought that less than \$1,500 was spent on public school students each year.

Interestingly, Wisconsin residents are just as sanguine as the nation as a whole about the efficacy of increased school spending. A majority of 57 percent of Wisconsin residents, and 53 percent of the nation as a whole, are either very confident or somewhat confident that “if more money were spent on public schools in your district ... students would learn more.” But once again, staunch critics of increased spending appear in higher proportions in Wisconsin than they do in the rest of the nation. Whereas just 13 percent of the American public is “not confident at all” that increased spending will augment student learning, 19 percent of Wisconsin residents reported such views.

STUDENT ACCOUNTABILITY—WHERE WISCONSIN AND THE NATION ARE IN LINE

Wisconsin residents exhibit just as much support as the rest of the nation for student accountability measures. In 2007, the last time these questions were administered in an *Education Next*-PEPG survey, 81 percent of the American public supported a requirement that

“students in certain grades must pass an exam before they are eligible to move on to the next grade level.” Three years later in Wisconsin, 80 percent of residents continued to do so. In 2007, 85 percent of the American public supported another requirement that “students must pass an exam before they are eligible to receive a high school diploma.” In 2010, 85 percent of Wisconsin residents supported the same requirement.

“...38 percent of the American public claimed to pay either ‘a great deal’ or ‘quite a bit’ of attention to issues involving education, while 51 percent of Wisconsin residents do so.”

PARTISANSHIP AND ATTITUDES

Decades of research in American politics and public opinion have demonstrated that partisanship or party identification is the single most important driver of policy attitudes.

We examined differences in assessments of the education system in the state and various potential reforms by self-reported party identification. While there were differences on some questions, there was relatively little variance in attitudes among Democrats and Republicans on most issues.

Republicans were slightly more likely to pay attention to education issues, but there was no difference by party attachment in how Wisconsinites compared the education system in the state to other states overall or by test scores. Furthermore, while Democrats rated schools in the state higher than did Republicans, there was no difference in how Democrats and Republicans graded schools in their own communities.

Republicans were slightly more supportive

of charter schools (61 percent for Republicans and 51 percent support from Democrats), but there was majority support from both camps. There was very slight additional support from Republicans for requirements that students pass exams to go to the next grade or to get a high school diploma, but again, it was minimal.

Republicans were more likely than Democrats (62 percent to 51 percent) to support basing teacher salaries on student progress. And Democrats were more likely to support teacher tenure—43 percent of Democrats in support and 30 percent Republicans in support. Republicans were slightly more likely to say that students needed to show adequate progress for teachers to get tenure and thought three years was too little time to get tenure. Again, though, there was strong majority opinion by all on these issues.

The two largest differences came on questions about additional spending and a tax credit for educational expenses. Specifically, Democrats by a margin of 22 percentage points (70 percent to 48 percent) were more confident that additional spending would improve schools. More surprisingly, Democrats (72 percent) were more likely than Republicans (57 percent) to support offering a tax credit for educational expenses to low- and moderate-income parents who send their children to public and private schools.

CONCLUSION

Looking at the entire survey, we find Wisconsin residents have stronger opinions than the nation as a whole. While the margin between supporters and opponents in Wisconsin and across the country is similar on many issues—

including vouchers, charter schools, virtual education, merit pay initiatives, accountability provisions, teacher tenure, and increased school spending—levels of support and opposition in Wisconsin are routinely higher than in the nation as a whole. For example, on choice and merit pay policies, in particular, the American public is three to five times more likely to select this middling category than are Wisconsin residents. Consequently, public opinion about education reform in Wisconsin would appear more polarized than in the rest of the country.

What is the source of these differences? Survey methodology may be the culprit. The WPRI study was conducted over the telephone, whereas the *Education Next*-PEPG surveys were conducted online. It is possible that when speaking to an actual person on the telephone, respondents feel a greater compunction to express a clear position of support or opposition to a given policy reform. And some past research has shown this to be true.¹¹ Our own surveys provide further suggestive evidence of this phenomenon. Though the subsample of Wisconsin residents in the *Education Next*-PEPG 2009 Survey is quite small (n=57), it reveals a much higher proportion of Wisconsin residents claiming to “neither support nor oppose” various policy reforms than is observed in the WPRI telephone survey.

Still, the differences between the online and telephone samples that we observed are markedly greater than those observed in past research on “mode effects.” Our own surveys, moreover, suggest that the observed differences are due, at least in part, to differences in the two populations. As previously noted, 38 percent of the American public claimed

to pay either “a great deal” or “quite a bit” of attention to issues involving education, while 51 percent of Wisconsin residents do so. Note also that the differences between Wisconsin residents and the American public on this dimension are not observed on every policy item. On some items, in fact, few if any differences are observed. Moreover, the observed differences are most acute on items where Wisconsin residents have the most experience, e.g. school choice.

What, then, is the bottom line? Though perhaps not as great as the raw comparisons between the WPRI and *Education Next*-PEPG surveys would suggest, Wisconsin residents appear more informed and engaged about education reform than people in the rest of the country. Moreover, Wisconsin residents appear just as supportive of, and in some cases more supportive than, Americans nationwide. And where Wisconsin public schools confront the greatest challenges, notably in Milwaukee, support for a wide range of accountability and choice reforms reaches its apex.

Endnotes

¹ See www.RefocusWisconsin.org for a full description of the survey methodology, a full copy of the survey instrument, cross-tabs, and the raw survey data in an SPSS data file.

² Except where noted, Wisconsin public opinion data are compared to results from the 2009 *Education Next*-PEPG Survey (Howell, W., M. West, and P. Peterson. 2009. “The Persuadable Public, Results from the Second Annual Education Next-PEPG Survey.” Available online at: <http://educationnext.org/files/pepg2009.pdf>). Findings from the 2010 Education Next-PEPG Survey should be available in the fall of 2010. All *Education Next*-PEPG surveys were conducted by the polling firm Knowledge Networks, which maintains a nationally representative panel of adults, obtained via list-assisted random digit-dialing sampling techniques, who agree to participate in a limited number of online surveys. Because Knowledge Networks

offers members of its panel free Internet access and a WebTV device that connects to a telephone and television, the sample is not limited to current computer owners or users with Internet access.

³ Data on the NAEP, commonly recognized as the “nation’s report card,” are available at: <http://nces.ed.gov/nationsreportcard/> (site accessed July 27, 2010).

⁴ Wisconsin first enacted charter legislation in 1993. For the strength of its charter law, the Center for Education Reforms ranks Wisconsin 16th among the 40 states with charter laws. More information is available at: <http://www.charterschoolresearch.com/laws/wisconsin.htm>.

⁵ Interestingly, when Wisconsin residents are told that “currently the state of Wisconsin allows low-income families in Milwaukee to send their school-age children to any public or private school they choose,” and that “for those parents choosing a private school, the government helps pay the tuition,” support for expanding this program to the rest of the state jumps to 60 percent.

⁶ For more on this topic, see William Howell and Mindy Spencer, 2007. “School Choice without Vouchers.” Pioneer Institute White Paper #41. Available online at: <http://pioneerinstitute.org/pdf/wp41.pdf>.

⁷ Howell and West show that support for more spending decreases by 10 percentage points when respondents are informed about average per-pupil expenditures in their district. Howell, W. and M. West. 2009. “Educating the Public.” *Education Next*. 9(3): 40-47. See also Howell, W. and M. West. 2008. “Is the Price Right? Probing Americans’ Understanding of Education Spending.” *Education Next*. 8(3): 36-41.

⁸ Direct comparisons with the national sample, in this instance, are complicated by the fact that the WPRI survey allowed respondents to claim they did not know, an option that was unavailable in the *Education Next*-PEPG survey. Forty-eight percent of Wisconsin respondents selected this option. Additionally, the results for the national sample listed above come from a 2007 survey, whereas the WPRI survey was fielded in 2010.

⁹ In 2008-2009, the most recent year for which data are available, per-pupil expenditures in the state of Wisconsin were \$12,346, on average. For previous years and district-specific figures, see: <http://dpi.wi.gov/sfs/cmpe.html> (site accessed July 27, 2010).

¹⁰ As in the national survey, we dropped from the analysis estimates that exceeded \$50,000.

¹¹ See, for example, J. Michael Dennis, Cindy Chatt, Rick Li, Alicia Motta-Stanko, and Paul Pulliam, 2005. “Data Collection Mode Effects Controlling for Sample Origins in a Panel Survey: Telephone versus Internet.” Knowledge Network Research Paper available online at: <http://www.knowledgenetworks.com/ganp/docs/Research-0105.pdf>.

WISCONSIN’S GREAT DISCONNECT — WORRIED BUT STILL HAPPY

— BY KENNETH M. GOLDSTEIN —

UW-Madison Political Science Professor Kenneth Goldstein is one of the foremost experts in the country when it comes to asking questions. He explains in a few short pages and, perhaps more importantly, in terms we can all understand, what the people of Wisconsin are thinking on practically every important social issue. Here’s the headline: The folks here have strong views, and they are not afraid of expressing them.

Refocusing Wisconsin did not just want to hear from the experts for this report. It wanted to hear from ordinary citizens as well. So the project executed one of the most thorough and exhaustive polls of state residents in recent memory to understand where average citizens fall on the important issues facing the state.

In short, Wisconsinites are concerned about the direction of the state, its economy, and their family’s own economic wellbeing. Furthermore, Wisconsinites do not think that their state government is doing a particularly good job and are frustrated with a state government that they do not believe is particularly innovative. Still, Wisconsinites also report being relatively happy and rate life and schools in the Badger State better than in other states.

Although attitudes on many issues break down along some of the familiar divisions and can be explained by political partisanship, across a wide variety of issues, Wisconsin-

ites are unified more than they are divided. Democrats, Republicans, union members, government employees, young, old, Madison and Green Bay—all have relatively similar positions on a wide variety of issues.

Where we do see differences is between residents of the city of Milwaukee and the rest of the state. These differences are most dramatic when it comes to assessments of how things are going and quality-of-life issues. Milwaukee residents have a more negative outlook. In addition, there are also significant differences between city of Milwaukee residents and citizens in the rest of the state in their assessments of the current situation and attitudes toward various public policy reforms.

Perhaps the most striking finding in the survey and one that sums up the challenges for Wisconsin and its leaders in the 21st century is the strong belief that we are losing some of our best citizens. By a margin of well over two to

one (62 percent to 27 percent), a clear majority of Wisconsinites believe the best and brightest leave Wisconsin to work.

METHODOLOGY

The June 2010 WPRI study comprised a representative sample of 2,508 Wisconsin adults ages 18 and over conducted from May 27 to June 10, 2010. The focus of the study was on policy issues as well as attitudes on quality of life in Wisconsin, economic evaluations, and satisfaction with state government. The survey instrument also included a wide range of standard demographic measures. This survey conforms in full with the disclosure requirements of the American Association of Public Opinion Research (AAPOR) Code of Professional Ethics and Practice and the AAPOR Transparency Initiative. An AAPOR standard disclosure form and a full copy of the survey instrument and crosstabs are available at www.RefocusWisconsin.org.

The fieldwork for this survey was carried out by LHK Partners of Newtown Square, Pa., using a dual-frame sample design covering both landline telephone and cell phone numbers, with samples produced by Genesys Sampling. In total, 1,867 respondents were reached by landline and 641 were reached by cell phone. The study was designed to provide information about both the state as a whole and its various geographic regions, with the following number of interviews completed in each of five geographic areas:

- 492 respondents in the city of Milwaukee
- 526 respondents in the Milwaukee Media Market (excluding city of Milwaukee)
- 499 respondents in the Madison Media Market
- 503 respondents in the Green Bay Media Market

- 488 respondents in the rest of the state

With proportional weighting, the study yields seven representative and comparable samples:

1. Statewide sample
2. City of Milwaukee
3. Milwaukee Media Market (excluding city of Milwaukee)
4. Milwaukee Media Market
5. Madison Media Market
6. Green Bay Media Market
7. Rest of the state

The July study used the identical methodology, talking to 822 Wisconsinites (621 by landline and 201 by cell phone). It was conducted from July 11 to July 13 and included an oversample of 200 city of Milwaukee residents. An AAPOR standard disclosure form and a full copy of the survey instrument and crosstabs are also available at www.RefocusWisconsin.org

MOOD

In the June 2010 survey, Wisconsinites were slightly more optimistic about the direction of the state than the direction of the country. Exactly three in ten Wisconsinites said that the country was on the right track, while a clear majority—62 percent—believed it was headed in the wrong direction. These findings echo results from national surveys on the direction of the country with Wisconsinites' views on the direction of the country virtually identical to nationwide polling. Wisconsinites' opinions of the direction of the state were only slightly more positive, with only slightly more than one in three (34 percent) saying it was on the right track. Republicans and independents were much more likely to be negative about both the state of the country and the state of the state.

In the July survey, we see a small downtick in the mood of Wisconsinites. Fewer than one in three (28 percent) Wisconsinites thought that the state was on the right track. Furthermore, citizens were less content with state government, more frustrated, and less happy than they were in the June survey. Again, the results and the downward trends track national trends seen in scores of polls around the country over the summer.

Statewide, views on the economy showed some small signs of optimism in the June survey, but citizens remained wary. Exactly four in ten said that they thought the economy would stay the same over the next year while 38 percent of Wisconsinites believed that the state's economy would get better over the next year. When it comes to one's family economic situation, just three in ten Wisconsinites thought they would be better off over the coming year.

Respondents believe the economy should be the top priority of state government (39 percent in the June survey). There is partisan consensus that jobs and the economy are the most important problem, but Republicans (30 percent) are more likely than Democrats to be concerned with government spending.

LIFE, SCHOOLS, AND STATE GOVERNMENT

Views on state government are generally negative. State government is more likely to be rated as doing a poor job (25 percent) or only fair job (43 percent) than of doing a good job (28 percent) or excellent job (2 percent). A majority of Wisconsinites—61 percent—reported that they thought state government was tied to old ideas and practices and only 28 percent of Wisconsinites thought state government was innovative. Although self-identified Democrats

had slightly more positive views, these negative assessments varied little by partisanship. Democrats, Republicans, and Independents may disagree on some issues, but they share a similar outlook on the performance of Wisconsin's state government.

Most Wisconsinites (62 percent) think their taxes are too high, and a similar number (64 percent) believe they are paying more compared to other states. Again, while Republicans had stronger views, identical majorities of self-identified Democrats also thought their taxes were too high (54 percent) and that they paid more than people in other states (54 percent).

Despite these less-than-positive assessments, Wisconsinites rated the quality of life in their state higher than (39 percent) or about the same (48 percent) as that of the residents of other states. Wisconsinites also reported high levels of happiness across the state, with 71 percent saying they are either very or rather happy. Also, although they may be dissatisfied with the job state government is doing, a majority of Wisconsinites—52 percent—believed that state government is basically sound. On this question, there were partisan divisions with almost two in three Democrats (65 percent) saying that state government was basically sound while a plurality of Republicans thought state government needed major reform.

Wisconsinites gave moderate marks to their schools. Statewide, the most popular grade for schools in both the state and community was a "B" (44 and 42 percent, respectively). Comparatively, a majority—57 percent—of those polled gave public schools in the nation as a whole a "C." Most in Wisconsin rated the quality of their school systems and the state's student performance on standardized tests as higher than or about the same as the rest of the

country. A majority of the state (60 percent) favored a voucher system for schools. As you will read in the essays on education for *Refocus Wisconsin*, the citizens of this state have stronger opinions on education than the rest of the country, they follow these issues, and they are not afraid of weighing in with their opinions.

REFORMS

In the July survey, the \$2.7 billion structural budget deficit and the fact that the state has the third-worst migration pattern in the country were the two arguments that were rated as the most believable and the most convincing reasons to support policy reforms. The largest part of the population leaving the state earns over \$120,000 a year and the largest influx of new residents—by far—earns around \$20,000. The argument that resonated best with those who changed their minds or who thought that major policy reform was not needed when first asked was the migration message. This is consistent with what we saw in the University of Wisconsin Business School student survey and in the June statewide survey: Wisconsinites believe the best and the brightest are leaving this state, and that is a strong reason to fix things.

Wisconsinites are most negative about the taxes that the state relies upon (income and property) and are most positive about the tax (sales) that we rely on less. There is support for raising the sales tax and reducing the property and/or income tax. These beliefs are consistent across a wide range of demographics, partisanship, and geographic regions.

There is clear and overwhelming support (76 percent to 17 percent) for having public employees help contribute to their own pensions. There are no partisan divisions here with 71 percent of Democrats, 79 percent of

Republicans, and 79 percent of Independents all saying that public employees should contribute to their own pensions.

THE GREAT DIVIDE: MILWAUKEE AND EVERYWHERE ELSE

Whereas the rest of the state tends to be more optimistic about their local situation than the nation, Milwaukee residents buck this trend on question after question and topic after topic. Although only 34 percent think the state is on the right track, 40 percent of Milwaukeeans believe the country is headed in the right direction. Additionally, Milwaukeeans are less likely to believe the quality of life in Wisconsin is higher than other states (19 percent). More than the rest of the state, Milwaukeeans tend to see the best and brightest as leaving Wisconsin for employment, and are more likely to see themselves leaving.

In what may seem to be a disconnect from the results described in the above paragraph, despite this negative perspective on state issues, residents of Milwaukee are much more likely (47 percent to 30 percent) to expect their family's economic situation to get better in the coming year.

Those polled in Milwaukee were much more likely to see the schools as a major problem. Not surprisingly, nearly half (47 percent) give Milwaukee Public Schools a poor rating, compared to 34 percent in the rest of the state. Despite this pessimism, Milwaukeeans are confident (30 percent very and 38 percent somewhat) that extra money spent on schools would help students learn more—a belief not shared by the rest of the state.

Milwaukeeans were both more aware of and more supportive of school vouchers than the rest of the state (71 percent in favor compared

to 60 percent); they were also more supportive of a teacher “residency” program.

In general, Milwaukee residents are more aware of and more supportive of reforms—an even more striking fact when it's taken into account that residents of the city are more likely to be Democrats, and Democrats in the rest of the state are less likely to support reforms. Forty-seven percent of those polled in Milwaukee thought that the Wisconsin state government needs very major reform.

AFRICAN AMERICANS:

More African American poll respondents (51 percent) than white respondents think the country is headed in the right direction. However, they are much less optimistic about the state (38 percent). Nearly a third of African Americans say the quality of life in Wisconsin is below that of other states; this number is less than 10 percent for white respondents. While African Americans are less likely to think there needs to be major reform in the state government, they tend to be more aware and supportive of other reforms, including school reforms.

African Americans report more optimism on the future of their family economic situation, with 53 percent expecting it to get better (compared to 27 in the rest of the state). Along with younger voters, African Americans are less likely to think the sales tax is the most fair, and find the income tax the most understandable.

Like Milwaukee respondents, African Americans see major issues with the state's school systems. Unprompted, 21 percent say education is the most important problem for government to tackle, and African Americans rate state and community schools lower than the rest of the state. They are more likely to support teachers than other groups.

THE POLITICAL ENVIRONMENT

The survey did not ask a standard battery of campaign or election questions. It did, however, ask party identification, registration status, and whether a respondent was likely to vote in the November elections. Along with other demographics, the crosstabs report includes answers for all questions by these characteristics.

Looking at both the June and July surveys and across all regions of the state, there is a significant enthusiasm gap in the likely electorate. Republican and likely Republican voters are much more likely to say that they will vote than Democratic and likely Democratic voters. Furthermore, independents are more likely to identify as Republicans by a margin of over two to one. In the June survey, Democrats have a seven-percentage-point advantage in party identification among all adults. This changes to a five point Republican advantage when independents are given the opportunity to identify with one of the parties (leaned party id) and the population is certain voters. The gap is even more dramatic in the July survey, with a three-percentage-point advantage for Democrats among all adults with unleaned party id turning to a ten-percentage-point deficit when the population includes leaned independents and only certain voters. In short, in terms of the partisan composition of the electorate, the difference in voter enthusiasm by party identification and the movement of independents toward the GOP is striking. What we are seeing this summer in Wisconsin is consistent with other national and state data across the country and is a mirror image of 2008—when Democrats were more energetic and independents strongly supported Barack Obama and other Democratic candidates.

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President of Chandler Consulting, LLC, which provides public policy and government relations consulting services. His clients have included statewide organizations and businesses in the real estate, manufacturing, education, energy and transportation sectors. He has written issue papers on state budget, tax and economic development and has made many presentations on public policy. Chandler has a B.A. degree in government from Lawrence University and a law degree from the University of Chicago Law School. He lives in Madison with his wife and twin daughters.

GWEN EUDEY



Gwen Eudey is Assistant to the Dean in the Wisconsin School of Business and has joint appointments as a senior lecturer in both finance and economics at the University of Wisconsin-Madison. She previously worked as an economist at the Federal Reserve Board, assistant professor

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of economics and European studies at Georgetown University, and was a senior lecturer of economics at the University of Pennsylvania. She received her Ph.D. in economics from University of California, Berkeley in 1993.

ROSE FERNANDEZ



Rose Fernandez spent a career as a pediatric nurse and hospital administrator and is an entrepreneur operating a small business with her husband manufacturing fire service safety

equipment. In 2004, she was a founder of the Wisconsin Coalition of Virtual School Families and led that organization's successful effort to change state law allowing online instruction in 2008. Fernandez is the Executive Director of the National Parent Network for Online Learning. Her five children have all attended Wisconsin Virtual Academy, a statewide charter school that uses an online curriculum. She holds a Master of Science in Nursing degree from the University of Wisconsin-Madison.

STEPHEN GOLDSMITH



Stephen Goldsmith is the Daniel Paul Professor of Government and the director of the Innovations in American Government Program (on leave) at Harvard's Kennedy School

of Government. He was recently named Deputy Mayor for Operations by New York City Mayor Michael R. Bloomberg. Goldsmith is former Chair of the Corporation for National and Community Service and previously served two terms as Mayor of Indianapolis, America's 12th largest

city. As mayor, he reduced government spending, cut the city's bureaucracy, held the line on taxes, eliminated counterproductive regulations, and identified more than \$400 million in savings. He reinvested the savings by leading a transformation of downtown Indianapolis that has been held up as a national model.

KENNETH GOLDSTEIN



Kenneth Goldstein is a professor of political science at the University of Wisconsin-Madison and the author of over 30 books, refereed journal articles and book chapters. His diverse set

of publications on political communication, voter turnout, survey methodology, presidential elections, and Israeli politics have appeared in top-line political science journals and major university presses as well as in refereed law and medical journals. Goldstein recently won the University of Wisconsin's Kellet Award for his career research accomplishments and the Chancellor's Award for excellence in teaching. He also has extensive professional experience and is currently a consultant for the ABC News elections unit and a member of their election night decision team. He has appeared numerous times on "NewsHour with Jim Lehrer," "Nightline," "ABC World News Tonight," "NBC Nightly News," "CBS Evening News," "FOX News Channel, MSNBC, CNBC and CNN, and is a frequent contributor on National Public Radio. He is also quoted extensively in the country's top newspapers such as *The New York Times*, *The Washington Post*, and *The Wall Street Journal*.

JOHN GURDA

John Gurda is a Milwaukee-born writer and historian who has been studying his hometown and home state since 1972. He is the author of 19 books, including histories of

Milwaukee-area neighborhoods, industries, and places of worship. *The Making of Milwaukee* is Gurda's most ambitious effort. At 450 pages and with more than 500 illustrations, it is the first full-length history of the community published since 1948. Milwaukee Public Television created an Emmy Award-winning documentary series based on the book in 2006. In addition to his work as an author, Gurda is a lecturer, tour guide, and local history columnist for the *Milwaukee Journal Sentinel*. He holds a B.A. in English from Boston College and an M.A. in cultural geography from the University of Wisconsin-Milwaukee.

THOMAS R. HEFTY

Thomas R. Hefty is the retired chief executive of Cobalt Corporation (Blue Cross Blue Shield United of Wisconsin). He served as co-chair of Gov. Doyle's Economic Growth Council

from 2003 to 2005, and he served on a similar panel under Gov. Thompson. Hefty holds a master's degree in economics from Johns Hopkins University and a law degree from the University of Wisconsin. He has received honorary doctorates from both Ripon College and the Medical College of Wisconsin.

FREDEORICK M. HESS

Frederick M. Hess, an educator, political scientist, and author, studies a range of K-12 and higher-education issues as AEI's director of education policy studies. He serves as executive editor

of *Education Next*, on the Review Board for the Broad Prize in Urban Education, and on the boards of directors for the National Association of Charter School Authorizers and the American Board for the Certification of Teaching Excellence. A former high school social studies teacher who has taught at the University of Virginia, the University of Pennsylvania, Georgetown University, Rice University, and Harvard University, he holds his M.Ed. in teaching and curriculum and his M.A. and Ph.D. in government from Harvard University.

WILLIAM HOWELL

William Howell is the Sydney Stein Professor in American Politics at the University of Chicago, where he holds appointments in the Harris School of Public Policy, the Department of Political Science, and the College. He has written widely on separation-of-powers issues, American political institutions, and education issues. He is the co-author of *While Dangers Gather: Congressional Checks on Presidential War Powers*; author of *Power without Persuasion: The Politics of Direct Presidential Action*; co-author of *The Education Gap: Vouchers and Urban Schools*; co-editor of *The Oxford Handbook on the American Presidency*

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and editor of *Besieged: School Boards and the Future of Education Politics*. His research also has appeared in numerous professional journals and edited volumes.

MICHAEL M. KNETTER

Michael M. Knetter joined the Wisconsin School of Business as its dean in July 2002. He has published widely in the areas of international economics and macroeconomics.

Knetter served as senior staff economist for the President's Council of Economic Advisors for former presidents George H.W. Bush and Bill Clinton, and is currently research associate for the National Bureau of Economic Research and faculty affiliate of the La Follette School of Public Affairs. Knetter completed his undergraduate studies in economics and mathematics at the University of Wisconsin-Eau Claire and his Ph.D. in economics at Stanford University.

WARREN KOZAK

Journalist and author, Warren Kozak has written for some of the most influential network anchors on television, including Ted Koppel, Diane Sawyer, Charles Gibson and Aaron Brown.

During the 1980s, he was an on-air reporter for National Public Radio. In 1988, he co-wrote, along with Eric Sevareid, the award-winning PBS documentary *Kristallnacht, The Journey From 1938 to 1988*, marking the 50th anniversary of Crystal Night. His first book, *The Rabbi of 84th Street*, was published by HarperCollins

in July 2004. In 2009, he wrote *LeMay: The Life and Wars of General Curtis LeMay*, a biography of the controversial U.S. Air Force general published by Regnery in 2009. His op-eds have appeared in *The Wall Street Journal*, *The Washington Post*, and *The New York Sun*, as well as other newspapers and magazines. Kozak was born and raised in Milwaukee. He was educated in the public school system there and attended the University of Wisconsin – Madison, graduating with a B.A. in political science.

GEORGE LIGHTBOURN

George Lightbourn is the President of the Wisconsin Policy Research Institute. He served two governors as Secretary of the Wisconsin Department of Administration. He has also served

on numerous boards, including the Wisconsin Investment Board, the UW Hospital and Clinics Authority Board and the Board of Directors of CMC Heartland Partners, based in Chicago. Lightbourn received a B.A. and M.A. from the University of Wisconsin-Madison. He is married and has three grown children.

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Olivia Meeks is a research assistant in education policy studies at the American Enterprise Institute.

LAWRENCE J. MONE

Lawrence J. Mone has been President of the Manhattan Institute, one of the nation's most influential public policy think tanks, since 1995. Under his leadership the Manhattan Institute has

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M. SCOTT NIEDERJOHN

M. Scott Niederjohn has published more than 50 articles, monographs, reports and curriculum materials and concentrates his research in the areas of economic education,

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CHRISTIAN SCHNEIDER

Christian Schneider is a senior fellow at the Wisconsin Policy Research Institute. He was the recipient of the 2005 Wisopinion.com "Blog of the Year" award, and is a

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FRED SIEGEL

Fred Siegel is currently both scholar in residence at St. Francis College in Brooklyn and a senior fellow at The Manhattan Institute. A professor at The Cooper Union for Science

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Atlantic, *The Public Interest*, *Commentary*, *The Wall Street Journal*, *The New York Times*, *Dissent*, *The Weekly Standard*, *The Washington Post's Outlook* section and *The Times Literary Supplement*.

RYAN STREETER

Ryan Streeter is U.S. editor of ConservativeHome.com, a national political daily to be launched in November 2010. He is also a Non-Resident Senior Fellow at the Sagamore Institute for Policy Research in Indianapolis and was until recently Senior Fellow at the London-based Legatum Institute. Previously, Streeter was a Special Assistant for Domestic Policy to George W. Bush in Washington, D.C. He holds a Ph.D. in political philosophy from Emory University.

JOHN TORINUS

John Torinus is the Chairman of Serigraph, Inc. in West Bend, Wisconsin, and the founder of BizStarts Milwaukee. He previously served as president for Competitive Wisconsin, an organization that measures the economic health and competitive position of the state, where he continues as director. Torinus holds a bachelor's degree from Yale University and a master's degree in social science from the University of Stockholm, Sweden, in international relations.

JAYSON WHITE

Jayson White works at the Ash Center for Democratic Governance and Innovation at Harvard Kennedy School, managing the Urban Policy Advisory Group, which supports policy

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SAMMIS WHITE

Sammis White is a professor of urban planning, Associate Dean of the University of Wisconsin-Milwaukee School of Continuing Education, and Director of the UWM Center for

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