The Skills Gap in Wisconsin

By Phil Sletten

Persistent high unemployment has presented a challenge to policymakers in Wisconsin and nationwide. However, despite the relatively large number of unemployed workers, government officials continue to hear that businesses have difficulty finding skilled labor to fill particular jobs. This phenomenon, colloquially dubbed “the skills gap,” has been identified and studied at the state level since before the Great Recession of 2007-09. With tight budgets and desire to boost employment with low-cost and innovative strategies, state legislators seek to tackle the skills gap, speed a broad economic recovery, and keep businesses from leaving their communities. To craft policies to alleviate any structural skills mismatch in the state economy, policymakers must have accurate information regarding the magnitude of a skills gap and occupations that face the largest skills gaps.

Wisconsin policymakers have a limited ability to induce major macroeconomic changes in the state economy. However, policymakers do have substantial influence over education policy, including higher education. With some exceptions, people may learn many skills that employers require through formal education. In our study of the skills gap in Wisconsin, Jennifer Cunha, Megan Loritz, Ben Nerad, and I projected the education levels of new workforce entrants in aggregate and in specific fields to explore the skills gap. We considered education the best proxy for skill in the labor force, recognizing that state policymakers would likely have less influence over other factors contributing to skills in the labor force.

The Wisconsin Economy and Policy

Nearly half of Wisconsin’s workers are employed in manufacturing, health care and social assistance, state and local government, or retail trade. The industries with the fastest-growing employment between 2001 and 2010 were business management, real estate and rental services, educational services, and mining, with the largest declines in manufacturing and the military. Between the pre-recession peak in 2007 and the workforce employment rate’s trough in 2009, the U.S. economy shed nearly 9 million jobs. Wisconsin’s most recent peak in the unemployment rate was 9.2 percent at June 2009. The rate fell to 6.8 percent in June 2013. Despite this improvement, the absolute number of people employed in Wisconsin remains lower than it was in 2002, when the state was home to approximately 300,000 fewer people. Including only people who are working or are seeking employment, Wisconsin’s total labor force has fewer participants in 2013 than it did in 2006.

Wisconsin’s high unemployment rate could persist because of a number of factors. First, aggregate demand for goods and services might still be too low to bring employment back to higher levels. Second, the demand for high-skill workers has increased due to “skill-biased technological change,” while low labor costs
in developing nations have led to the erosion of manufacturing jobs in the United States. In addition, unemployment insurance extensions, which allow workers to wait for particular job opportunities rather than engaging in employment that may not be an ideal fit for them, may have contributed to high unemployment. Potential discrimination against the long-term unemployed may also be contributing, as potential employers may prefer workers with recent work experience. Finally, employers may face a shortage of workers with needed skills. This gap may occur through geographic misallocation of skills, slow changes in wages, or an overall labor shortage.

This final factor, the skills gap, is partially addressed through several Wisconsin policies. The Wisconsin Department of Children and Families operates several programs, the largest of which is Wisconsin Works. This program, funded through the federal Temporary Assistance for Needy Families, provides career planning, job placement, and financial assistance for low-income parents. Federal dollars also flow in to Wisconsin’s workforce development through the Workforce Investment Act, which supports job training, work readiness, job seeking, and other programs administered by regional workforce development boards. Other workforce development programs are administered by the departments of Health Services, Administration, Veterans Affairs, and Corrections, and the technical college system. In total, 70 percent of the $396 million spent in fiscal year 2012 on programs at least somewhat related to workforce development came from federal transfers. Remaining state dollars accounted for less than 2 percent of the state budget.

Wisconsin also supports an extensive educational system, including 26 University of Wisconsin two-year and four-year campuses, 16 technical colleges, and significant state support for public schools. The Career and Technical Education program also connects high school students with potential employers and enrolls students in career or technical education classes.

During spring 2013, Wisconsin policymakers enacted several policies, including $20 million for new grants to sponsor training for new and existing employees in Wisconsin businesses. Another policy, adopted in the same legislation, requires the Wisconsin Department of Workforce Development to create and operate a Labor Market Information System to track job vacancies and provide key information to employers and administrators working in business, education, and government.

Phil Sletten graduated from the La Follette School in May 2013 with a master of public affairs degree. This article is based on the report he and co-authors Megan Loritz, Ben Nerad, and Jennifer Cunha produced, under the guidance of professor emeritus Robert Haveman, for the Wisconsin Legislative Council in the Workshop in Public Affairs.

Skills Gap Research

Since the Great Recession, studies of the skills gap and its impact on the labor market have been published in Wisconsin and on the national level. Most of the reports we reviewed subscribe to one of three explanatory narratives for the skills gap phenomenon. The first narrative, outlined in the 2012 Wisconsin-based Be Bold 2 report and the 2012 Sullivan Report prepared for Wisconsin Governor Scott Walker, presents the skills gap problem as companies have reported it to policymakers: despite the high unemployment rate, the employers are having trouble finding workers to take positions that they are eager to fill. Workers simply do not have the training, either in specific skills or in professional, “soft” skills, to adequately fill the positions.

The second narrative, outlined by University of Pennsylvania professor Peter Cappelli and a number of journalists, argues that skilled workers, or workers willing to acquire necessary skills, do exist, but the wages offered for the open positions are too low to attract the necessary talent. This narrative suggests that workers seeking employment will compare jobs that require specific skills at low wages to those that do not require specific skills at similar wage levels and likely opt for the latter to avoid time and energy investments in training that they might consider unnecessary. In this narrative, the onus is largely on employers to offer higher wages and more training opportunities during employment, rather than requiring potential employees to acquire skills before they gain employment.

The third narrative focuses on the continuing macroeconomic impact of the Great Recession and the subsequent sluggish recovery. In this narrative, people who are skeptical about the existence of the skills gap argue that companies have little incentive to hire and train employees without stronger demand for goods and services generally in the economy. This weak demand allows companies to be unusually selective regarding their hiring choices and seek to avoid incurring training costs. This narrative, outlined in a report by University of Wisconsin–Milwaukee professor Marc Levine, suggests that as aggregate demand increases, any skills gap will likely disappear as companies become more willing to train new employees.

Several key reports released in 2012 and 2013 have focused on the skills gap in Wisconsin. The first, The Sullivan Report, chronicled many of the concerns businesses had reported in the state, focused on demographic trends and graduation rates in Wisconsin, and used national and global survey data to make recommendations to tackle the skills gap. The second report, Be Bold 2, produced by Competitive Wisconsin, sought to quantify the skills gap by measuring the supply of workers by “skill cluster” and estimating demand. Levine’s report used economic indicator data to argue that Wisconsin workers are likely overeducated for their work, and the mismatch was not the result of a lack of skills, but a lack of jobs that match their high education levels.

Overall, the economically rigorous national literature on the skills gap suggests that its magnitude may be closely tied to demand, while the state-level analyses in Wisconsin offer mixed conclusions and varying levels of rigor.
At the national level, Federal Reserve Bank economists and academics have published several high-profile reports and working papers on structural unemployment. These reports have, for the most part, argued that the mismatch between worker skills and employer demands has added to the unemployment rate, but that the mismatch will likely diminish as the economy recovers. In other words, the skills gap is temporary and will disappear as aggregate demand for labor increases. Two authors, professor Harry Holzer of Georgetown University and professor David Autor of the Massachusetts Institute of Technology, have offered substantially different projections for the long-term skills needs of the broader economy, specifically with regard to the growth of middle-skill jobs rather than high-skill jobs. Holzer argues that job growth will be highest in middle-skill occupations, while Autor argues that the economy is polarizing and demand of high-skill workers will increase.

Overall, the economically rigorous national literature on the skills gap suggests that its magnitude may be closely tied to demand, while the state-level analyses in Wisconsin offer mixed conclusions and varying levels of rigor.

**Conceptualizing the Skills Gap and Limitations to Measurements**

To understand the effects of any skills gap on the economy, the market model provides a guide for conceptualizing the problems that a skills gap may create. Theoretically, a smoothly functioning market would not produce a skills gap.

The labor market responds to differences in the demand for, and the supply of, skills in the labor force. The market could respond to these differences immediately, with a lag, or through a secondary market. In a smoothly functioning market, wage rates adjust rapidly in response to any difference between demands and supplies of various skills. In this framework, a skills gap would represent a market failure, as the market is not adjusting to the mismatch between supply and demand. Thus, in a situation where the labor market is not smoothly functioning, wages may remain stagnant even though a skills gap exists. If a skills gap exists, then we cannot necessarily expect the market to correct it, and a policy intervention may help the market function more smoothly.

Ideally, measurements of skills gaps would also gauge the willingness of employers to increase wage rates of those workers with skills in short supply and invest in training for new workers. In this case, under the assumption of a smoothly functioning market, relative patterns of skill-specific wage adjustments would indicate the extent and severity of the shortage. To our knowledge, no reliable data exist that indicate the extent to which employers are willing to pay to train new hires in Wisconsin. These data would provide us with key information to evaluate the skills gap, as the willingness of employers to provide training may be a key indicator of the magnitude of any gap.

Beyond theoretical inferences based on basic wage and employment data, we cannot predict the willingness of certain employers, with specific talents and skill levels, to accept employment at various compensation levels. Finally, we are not able to measure the willingness of individuals to relocate for employment. However, the literature suggests that geographic mismatch does not contribute substantially to unemployment.

**Analyzing the Skills Gap**

We attempted to analyze the skills gap using three different methods. First, we considered the economic indicators and other statistics produced by government agencies and related to Wisconsin’s workforce. Second, we projected the overall level of educational attainment in the workforce based on recent trends. Third, we selected nine occupations that have the highest projected number of openings and require some level of educational attainment beyond a high school diploma and compared that demand to the projected supply based on recent trends.

**Economic Indicators**

To understand where a skills gap may exist in Wisconsin’s current workforce, we examined the recent economic indicators that might help identify some broader skills gaps in the economy. A key assumption throughout our study is that skill level increases with level of educational attainment. We consider this assumption applicable to most professions and the most direct measurement that government policy may influence. If this assumption holds true, then we would expect a skills gap to result in much higher employment for high-skill workers, and perhaps even higher employment rates than pre-recession levels if the skills gap is truly a recent acute phenomenon.

Our examination of Wisconsin’s unemployment rate for groups with different levels of educational attainment revealed that although highly educated workers continue to have a lower unemployment rate than their less educated peers, the unemployment rate for all groups remains above pre-recession levels. The lowest percentage increase in unemployment from 2005 through 2011 was for people with less than a high school diploma, although their 2011 unemployment rate was 18.8 percent. People with bachelor’s degrees or higher had a much lower level of unemployment, at 3.2 percent, but that level was 68 percent higher than the 2005 figure. Those with some college education but less than a bachelor’s degree saw the largest percentage increase in unemployment from 2005 to 2011, with unemployment rising to 7.2 percent. These figures suggest that, although the unemployment rate is consistently lower for those with higher levels of educational attainment, people with higher skills were still having more difficulty finding work than they were before the recession.

An analysis of U.S. Census Bureau data on the educational attainment of the already employed in Wisconsin show that people with more than a high school diploma fill many
occurrences that do not typically require post-secondary education. For example, more than 60 percent of Wisconsin’s retail salespersons have some post-secondary education, and more than 19 percent have a bachelor’s degree or higher. More than 56 percent of bartenders and telephone operators have post-secondary education, and more than 12 percent of both groups have a bachelor’s degree or higher. The percentage of workers in retail sales, bartenders, bank tellers, bus drivers, and cashiers who have bachelor’s degrees has increased from 2000 to 2010, suggesting that this over-qualification is an increasing trend in many parts of Wisconsin’s economy. Although having a bachelor’s degree may make a worker a superior bartender, these data do not indicate a skills gap, but rather suggest that people with high levels of educational attainment accept jobs below their skill level.

Projection Analysis for Educational Attainment

Reliably determining whether a skills gap exists is difficult because of the limited nature of the available data, which also would impede accurate measurement of any gap’s magnitude. For this and other reasons, studies of the skills gap have reached substantially different conclusions as to whether a skills mismatch exists, much less as to the magnitude of any gap. We attempted to determine whether a skills gap might exist in Wisconsin’s near future. Using two primary datasets, we examined both the supply and the demand for skilled labor in the state.

Our approach compared the projected demand for workers of various levels of education attainment in Wisconsin with the projected supply of workers with these same educational attainment levels. The projection of skills demand rested on estimates of job openings from the Wisconsin Department of Workforce Development (DWD), which publishes job opening projections by occupation that account for positions resulting from workers retiring and switching industries, as well as economic growth that increases demand for workers. Our projected supply of workers with various skills relied on data on new graduates of Wisconsin institutions of higher education, both public and private. Through these data, we examined trends in the number of new graduates at several educational attainment levels.

For 2010 to 2020, the most recent data available, DWD projected that the state will see more than 1 million job openings, with 345,000 coming from economic growth. Seventy-one percent of these projected openings are in occupations that the agency identifies as only requiring a high school diploma or less, with 17 percent requiring a bachelor’s degree or higher for typical entrants. Of the 10 occupations with the greatest number of expected job openings, nine require no post-secondary education for the typical entrant. These fields include cashiers, food preparation and service workers, office clerks, truck drivers, and bartenders. Only one occupation in the top 10, registered nurses, requires some post-secondary education.

To compare these anticipated openings, or the demand for workers, with the supply of educated workers in the state, we used recent data from the U.S. Department of Education’s National Center for Education Statistics to project the number of graduates that will likely be produced by Wisconsin’s educational institutions at each level of educational attainment. We used the number of graduates from each post-secondary educational institution in Wisconsin between 2000 and 2011 to project the number of graduates for 2012 through 2020 using four methods. We then adjusted the demand, or the projected number of openings, to match the 2012 to 2020 time frame based on recent employment data in Wisconsin.

The first supply projection method employed ordinary least squares regression to make a linear projection out to 2020 based on graduates during the years 2000 through 2011. The second projection method averaged the annual percentage change in graduates at each level of educational attainment for 2000 to 2011 and applied that average percentage change to each year from 2012 to 2020. The third method sought to adjust for years during which recessionary economic activity, both in 2001 and following the start of the 2007-09 recession, may have driven more applicants into educational programs by removing years with spikes in enrollment that may have been related to recessions. Fourth, we projected the number of new workforce entrants with bachelor’s degrees by pegging the projections to annual percent changes in official projections for high school graduates, lagged by four years. We adjusted our projections at each level of educational attainment to account for migration out of the state, based on retention data reported from the University of Wisconsin System and the Wisconsin Technical College System, and adapted labor force participation rates from the U.S. Bureau of Labor Statistics and the U.S. Census Bureau. Outmigration adjustments are small but noteworthy, given that the state lost an average of 6,500 residents to outmigration each year from 2005 to 2011. Labor force participation rates varied considerably by level of educational attainment, ranging from an estimated 51 percent, adjusted from Bureau of Labor Statistics figures, for high school dropouts to more than 90 percent for advanced degree holders.

Using these four methods, we created two sets of projections with appropriate averages and varying levels of adjustment for outmigration and labor force participation. The “upper bound” projections provided the most optimistic number of graduates in Wisconsin at each level of educational attainment, and the “lower bound” projections estimated a pessimistic outcome.
that assumes lower labor force participation rates and fewer out-of-state students attending and graduating from Wisconsin’s schools. Our results, shown in Figure 1, indicate the workforce will likely be more educated overall than the typical entry-level education for the job openings in the state.

If our assumptions and projections are accurate, our analysis, summarized in Figure 1, indicates that Wisconsin will likely experience a surplus of bachelor’s, master’s, and associate’s degree holders from 2012 to 2020. The projected additions of non-degree holders with some post-secondary education far exceed the projected number of job openings that require those levels of education. However, total projected openings in occupations that typically require only a high school diploma or less substantially exceed the number of graduates likely to enter the workforce at that level.

These projections suggest that those with higher levels of education may have to seek employment at a lower skill level. This phenomenon has several potential implications. First, employers could adjust their hiring qualification standards to higher levels of education without actual changes in job descriptions. As more skilled workers are available, a bachelor’s degree may be expected for more jobs that did not previously require one. Similarly, those with bachelor’s degrees, associate’s degrees, and some post-secondary experience may crowd out the high school graduates for jobs, causing higher unemployment in a subset of the population with generally fewer employment options. The projections also suggest that a higher skill level may not be necessary for a significant portion of the population that is going to college, given these workforce projections. Some of those who expend resources to attend college, and especially those who then drop out of college, might be more economically fortunate if they entered the workforce without going to college immediately. However, potential college attendees likely consider many other factors beyond short-term economic gain.

Notably, we projected a slight deficit of doctoral and professional degrees, but this gap is very minor compared to the surpluses faced at other levels of higher education. Another noteworthy component of the projections is the totals, which suggest that the total number of workforce entrants could be, although is not necessarily likely to be, smaller than the total number of workforce openings. Some have suggested that this potential problem is attributable to baby boomers entering retirement and relatively fewer young workers entering the workforce.

**Skills Gaps in Individual Occupations**

Although the Wisconsin workforce’s educational attainment would likely provide enough associate’s and bachelor’s degree holders in the aggregate, some individual occupations may not have a sufficient supply of trained workers. For example, if the projected growth in Wisconsin occupations requiring bachelor’s degrees was disproportionately journalists, but most of the growth in new degrees in the state came from chemistry and physics majors, then we would still face a skills gap even though we have sufficient bachelor’s degrees in total.

To explore this issue, we selected all the occupations requiring a bachelor’s degree, an associate’s degree, or a post-secondary certificate in which the DWD projected to have more than 5,000 openings from 2012 to 2020. We used linear regression and historical average percent changes to project the number of graduates in each field relevant to those occupations from 2012 to 2020 and then averaged the two totals to obtain our projection. We adjusted each projection to account for migration and workforce participation, and adjusted the DWD projections so the figures matched the likely number of openings from 2012 to 2020. We also developed two alternative projections for each occupation as a sensitivity analysis. First, we showed the projected total number of graduates in each subject area from 2012 to 2020 if the number of graduates each year did not increase.
and remained the same as in 2011 each subsequent year. The second sensitivity projection used the pessimistic parameters of a 2 percent reduction in the number of graduates each year, starting in 2012.

Eight occupations fit our criteria for individual evaluation. These occupations were registered nurses; general and operations managers; hairdressers, hairstylists, and cosmetologists; elementary school teachers; middle and high school teachers; accountants and auditors; nursing aides, orderlies, and attendants; and human resources, labor relations, and training specialists. We collected several computer-related occupations that required a bachelor's degree and all directly related to computer science into a ninth occupation, called computer and information systems workers.

We projected skills gaps in three of these nine occupations. Computer and information systems workers were projected to be in short supply, with a skills gap between 2012 and 2020 of 11,520 workers. This number suggests that, if current trends continue, 11,520 openings with workers for bachelor’s degrees in computer science will not be filled by Wisconsin's labor market. This figure rises to 12,260 if the number of Wisconsin graduates from computer science bachelor’s programs does not grow and to 12,790 in the pessimistic scenario. We also projected a skills gap for human resources, labor relations, and training specialists ranging from 2,350 in our projection to 3,400 in the pessimistic scenario. Middle and high school teachers were projected to face a very small skills gap, and the supply of elementary school teachers was projected to barely meet demand.

All of the other occupations were projected to have significant surpluses. The largest of these surpluses were in the healthcare field. We project that Wisconsin institutions will produce 13,750 more registered nurses between 2012 and 2020 than the number of job openings for registered nurses, although that number falls to 3,260 in our pessimistic, but likely unrealistic, sensitivity analysis. Our projected surplus for nursing aides, orderlies, and attendants is 51,550 between 2012 and 2020, with the surplus falling to 38,010 in our pessimistic scenario.

Policy Options

In our recommendations, we provide three broad policy options. First, we recommend that DWD build the Labor Market Information System to incorporate sophisticated and detailed information about the short- and medium-term supply of labor in the state, considering both the projected number of job openings in each occupation and the supply of graduates from Wisconsin’s school system. This model could also incorporate estimated migration volumes in more detail than we did. Additionally, we did not seek to measure geographic human capital disparities within the state, and a more complex DWD model could attempt to indicate those disparities. Finally, the state could collect more timely information on the expected number of graduates from Wisconsin institutions than our model was able to analyze.

Second, we recommend that Wisconsin promote job openings and opportunities for workers who would otherwise graduate with higher levels of education than necessary for the projected job openings. The Wisconsin legislature should appoint an expert commission to study the prospects for growth in Wisconsin's high-skill sectors. Such a commission could explore policies that would increase the number of firms employing high-skill individuals in the state in an effort to adjust the demand for workers in the state to meet the expected educational attainment levels of the supply of workers. Efficient use of these educated workers’ skills would likely make Wisconsin's economy more productive and increase median wages in the state.

Third, we recommend that the state seek to increase the volume and quality of information reaching students regarding job opportunities in the state. Students may make different decisions regarding when to pursue post-secondary education and the types of degrees they should seek if they were more aware of labor market projections in the medium-term. Policymakers should expand current experiential learning initiatives for public school students at all levels, including expanded vocational for-credit classes, field trips to worksites, job-shadowing, and apprenticeship programs. These programs could be part of a larger effort to support certain career pathways that may include planned returns to higher education and incrementally increasing skills. Policymakers could also consider programs that would ease pathways to college for individuals reentering education after spending time in the workforce. Scheduling flexibility and curriculum style changes may reduce the costs associated with transitioning back to part-time or full-time schooling from the workforce and vice versa.

Conclusion

This article explores and attempts to quantify a skills gap in Wisconsin. Our analysis of economic indicators does not provide evidence that a skills gap exists, or at least one large enough for these indicators to detect. Our quantitative projections suggest that a skills gap may exist in a few key areas of Wisconsin’s economy between now and 2020, most notably in occupations typically requiring formal education in computer science and information technology. However, we did not project an overall educational attainment-based skills gap in the Wisconsin economy in aggregate in the near future. Although Wisconsin may face a small shortage of doctoral graduates, recent trends suggest that the Wisconsin workforce may be substantially more educated than the projected job openings typically require for entry. State policymakers should craft policies to correct this imbalance. These policies could include making publicly available economic modeling to project skills gaps with information about Wisconsin graduates; incentivizing market demand for high-skill labor; and easing transitions between high school, college, and employment.
State-Level Policy Interventions to Address Childhood Obesity in Wisconsin

By Andrew Walsh, Selina Eadie, Miriam Palmer, Norma-Jean Simon, and Jiaqi Lu

The prevalence, consequences, and costs of childhood obesity have grown in magnitude and severity in the last 30 years. Policymakers, advocates, and academics have debated the effectiveness of strategies to reverse these trends. Here, we explore four state-level governmental policy options that promote child health and reduce childhood obesity, using Wisconsin as an example. Our work contributes to the literature addressing childhood obesity prevention by analyzing these policies with a novel cost-benefit and policy analysis framework.

About 17 percent of U.S. children are classified as obese, a threefold increase since 1980 (Figure 1). In Wisconsin, 14 percent of preschool-aged children and 9.3 percent of adolescents are obese. Moreover, the prevalence of obesity is not distributed evenly across the population. Figure 2 shows the uneven distribution of obesity by sex, age, and ethnicity. Additionally, 27 percent of children in households below the federal poverty line are obese, whereas 10 percent of children in households at 400 percent of the poverty line are obese.

The literature indicates three broad causes of childhood obesity: behavior, environment, and biology. While individual behaviors such as diet and physical activity are commonly implicated as causing obesity, experts recognize children are not autonomous decision makers; thus the environment in which they live has substantial influence on their diet and exercise choices. Prenatal and early childhood environments also have been implicated in predicting later childhood obesity. In summary, the literature finds many predictors and causes of obesity, illustrating the challenge of developing prevention strategies.

Obesity in children affects more than appearance; research links obesity to atherosclerosis, disrupted insulin regulation, fatty-liver disease, sleep apnea, and musculoskeletal disorders. Obese children are more likely to be obese as adults, experiencing similar physiological effects with more severe consequences, including increased mortality for the morbidly obese. Obesity-related morbidities have associated medical costs. Estimates of the total medical expenditure related to adult obesity in the United States range from $99 billion to $215 billion. For children, the costs are lower, around $17 billion annually.

Childhood obesity also has substantial social consequences, including stigma, bullying, discrimination, and depression, resulting in obese children consistently reporting lower quality of life scores than normal weight peers. These social effects also persist into adulthood. Obese children have been shown to miss school more frequently and have lower educational attainment than normal weight peers. In adulthood, obesity is associated with lower work productivity, including increased absenteeism. These negative consequences carry large costs for the individual and society.

Justification for Intervention

The market failures and unequal distribution of childhood obesity justify governmental action. First, there are unrealized costs when individuals purchase products or engage in behaviors that lead to obesity. These additional consequences “spill over” onto other people and impose widely shared costs, including greater public sector health-care spending. Second, lack of information about the short- and long-term consequences of individuals’ food and beverage consumption is a characteristic of an inefficient market. Consumers lack reliable knowledge regarding the weight gain and obesity implications of consuming various types of food. Advertising by food and beverage producers is designed to influence consumption patterns; harmful consequences of consuming excess calories or nutritionally poor food are seldom noted. Third, children seldom make autonomous choices about diet, nutrition, and physical activity, nor can they exert control over environments that encourage less healthful behaviors. Finally, the disparity of obesity prevalence along racial and socioeconomic lines reflects the underlying patterns of environmental circumstances that contribute to obesity.

Policy Options

We consider four policy options to influence childhood obesity by targeting four environments: 1) home, 2) child care, 3) school, and 4) retail. The four policies are a home-visiting program, child-care standards, a school-based grant, and a beverage excise tax. We selected these policies based upon meta-analytic results showing effectiveness of age- and setting-specific obesity reduction programs. We assess each policy using estimates of

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Figure 1: Obesity Trends, U.S. Children, 1974-2010

Obesity is defined as a body mass index greater than the 95th percentile for age- and sex-specific U.S. Centers for Disease Control and Prevention growth charts.

Source: Journal of the American Medical Association

Figure 2: Obesity Prevalence, U.S. Children, 2010

Source: Journal of the American Medical Association
net benefits from a benefit-cost analysis, the associated reduc-
tion in obesity prevalence, and reduction in disparities. Further,
we assess three elements of feasibility: the impact of each policy
on adults, the impact of each policy on the Wisconsin budget,
and the likely response from interest groups.

In our benefit-cost analysis, we monetize the following
benefits: medical cost savings, reductions in absenteeism from
school, productivity gains, and quality of life improvements.
Each policy has associated costs; we consider the program, grant,
and administrative costs to state government, the industry costs
to providers and distributors, the welfare changes to consumers
and producers, and the marginal excess tax burden. In Tables 1
and 2, we provide more detail about the benefit-cost methodol-
ogy and obesity reduction calculations.

Policy Option 1: Home-Visiting Program
Home-visiting programs are used to meet the needs of expect-
ant or new parents as they plan and provide for their children
at home. Programs are built around individual educators vis-
ing at-risk families, engaging in education, and connecting

Table 1. Benefit-Cost Methodology for Calculating Economic Benefits
of Government Action to Reduce Childhood Obesity

For each policy, we note when each of the benefits would accrue to an individual experiencing each policy over her or his lifetime. We use the current age-specific prevalence of childhood obesity to define Wisconsin’s at-risk population and use effect sizes from meta-analyses to calculate the percentage of at-risk children who would no longer be obese. As the cost-benefit analysis considers benefits over a lifetime, we apply mortality risk and a probability the policy’s effect persists after a child no longer experiences the policy. Costs are unique for each policy and are counted for the number of years a child would experience the policy. Costs and benefits are discounted at 3 percent; costs are subtracted from benefits to arrive at a present value of the net benefit for the average child who experiences each policy.

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<th>Categories of Benefits</th>
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<td>School absenteeism avoided</td>
<td>Individuals, government</td>
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<td>Productivity</td>
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<td>Quality of life for children and adults</td>
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<td>Home-visiting, child care, school, beverage tax</td>
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<td>Marginal excess tax burden</td>
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<td>Industry</td>
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Future Research and Limitations
There are several notable limitations to our assessment of each policy’s efficiency measures. First, the spillover effects of these policies on adults’ behaviors—particularly for the sugar-sweetened beverage tax—are likely to have some effect on adult obesity. Insofar as each policy could reduce adults’ body mass index, there would be benefits directly to those adults, the state of Wisconsin, and society. Because this analysis focuses on childhood obesity, the benefits from reductions in current adult body mass indexes are not included. If they were, net benefits of each policy would increase. Second, our analysis is limited to the state of Wisconsin; however, benefits could accrue to people and governments outside the state. Third, our analysis relies heavily on published effect sizes of obesity reduction programs, rather than evaluation of our specific obesity prevention policy options. Because these limitations make some of our estimates quite uncertain, we have run a large number of simulations to gain evidence of the reliability of our results. Additionally, the effect sizes only measure reductions in obesity and do not reflect the prevention of weight gain in populations not already overweight or obese. If the benefits of prevention could be included, the net benefits of each policy and their effects on Wisconsin’s Medicaid budget would increase.
families to services. Programs often address child health and development outcomes; however, only one small home-visiting program has attempted to reduce early childhood obesity prevalence. This policy would provide funding for a demonstration project and rigorous evaluation of obesity prevention incorporated into home-visiting programs for families with children identified as high risk for childhood obesity. The program would include education about best infant feeding practices, nutrition, and physical activity; implementation would adapt the curriculum used in previous obesity prevention home-visiting program. The total cost for a pilot program of this nature would be about $2 million; it would serve 310 families.

Cost-Benefit Results: The cost-benefit analysis of this program indicated total costs are larger than total benefits; the average net present cost is $1,207 per child. We also reflected the uncertainty of our estimates in a series of simulations—34.3 percent of simulations indicated net benefits. This result is within the range of estimates of other home-visiting programs evaluated by the Washington State Institute for Public Policy.

Reduction in Obesity: This pilot program is small; it would reach 0.47 percent of the newborn Wisconsin population; we estimate that the prevalence of obesity would drop by 0.02 percentage points. However, if the program maintained its anticipated effectiveness and was provided to 1,000 children, the reduction would improve to 0.06 percentage points.

Impact on Disparities: Home-visiting programs may reduce socioeconomic and racial obesity disparities, as they target low-income families and children who belong to populations with higher than average obesity rates. Again, the percentage point reduction is likely to be small.

Impact on Adult Autonomy: Home-visiting programs specifically target children and families at high risk for poor health and child outcomes. For this reason, this policy is likely to experience little of the opposition leveled against obesity interventions targeted toward adult behavior.

<table>
<thead>
<tr>
<th>Medicaid Savings Calculations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Using the parameters and medical cost savings from the benefit-cost analysis, and the fraction of obesity spending borne by Medicaid, we project Wisconsin’s Medicaid savings for each new cohort of children who experience a policy for the next 20 years. We only count savings up until 2034, meaning that the number of years in which savings are included decreases by one for each new cohort. That is, the cohort of children experiencing the policy in 2014 has 20 years of savings included, the cohort entering in 2024 has 10 years, and the cohort entering in 2033 has one year. The time frame of 20 years was specifically requested by Policy Challenge USA and acknowledges the difficulty of projecting costs, policy impacts, and exogenous influences over longer periods of time. Savings are discounted at 3 percent.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 2. Obesity Reduction Methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>The estimated percentage point reduction in obesity attributable to each policy was calculated by taking the product of the fraction of the population each policy reaches, the fraction of the population at risk for obesity, and the fraction of obese children who would no longer be obese.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Policy</th>
<th>Reach</th>
<th>At-Risk</th>
<th>Move</th>
<th>Percentage Point Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home-visiting</td>
<td>1.5%</td>
<td>24.0%</td>
<td>18.0%</td>
<td>.06</td>
</tr>
<tr>
<td>Child care</td>
<td>5.5%</td>
<td>14.1%</td>
<td>18.0%</td>
<td>.7</td>
</tr>
<tr>
<td>School</td>
<td>45.5%</td>
<td>14.1%</td>
<td>5.0%</td>
<td>.3</td>
</tr>
<tr>
<td>Beverage tax</td>
<td>77%</td>
<td>9.3%</td>
<td>3.0%</td>
<td>.2</td>
</tr>
</tbody>
</table>

Budgetary Implications: The budgets of the Wisconsin Department of Health Services and the Department of Children and Families would be affected by this policy. We estimated that Medicaid savings, over the course of 20 years, would be approximately $159,000 compared to the one-time cost of the program, which is $2.14 million.

Interest Group Opposition: Response from interest groups is likely to be minimal. Service providers who use public program grant funding to sustain their organizations and activities may appreciate additional opportunities to seek funding. Overall, home-visiting programs do not disrupt the economic, political, or social status quo, so interest groups’ and the public’s opinion of this policy may be supportive, at best, or indifferent, at worst.

Policy Option 2: Child-Care Standards

Young children spend a large and growing amount of time in child-care settings. Reviews of child-care obesity intervention programs and providers’ physical activity and nutritional environments suggest there is room for improvement in this setting.

The state of Wisconsin is able to affect the child-care environment through the Youngstar system, whereby providers who implement increasingly higher standards and best practices receive increased reimbursements for children who qualify for public child-care assistance. This policy builds on the existing Youngstar framework, adding best practice standards of infant feeding, nutrition, physical activity, and wellness curriculum from the National Resource Center for Health and Safety in Child Care and Early Education. As of spring 2013, Wisconsin was fully compliant with eight of the 47 recommendations, partially compliant with 21, did not address 15, and contradicted three. This policy option would require all Wisconsin providers to be fully compliant with 40 percent of the standards; compliance with additional standards would allow providers to earn progressively higher quality ratings. A wellness curriculum for children and parents would also receive points in the rating scheme.

Cost-Benefit Results: The cost-benefit analysis of this program indicated total benefits are larger than total costs; the average net present benefits to a child participating in a compliant program.
would be $776; 63 percent of the simulations returned positive net benefits.

**Reduction in Obesity:** How this program affects the prevalence of obesity in children depends on the extent to which providers implement the standards and curriculum. If 10 percent of the children in child care statewide participated in the program, the anticipated reduction would be 0.1 percentage points. Assuming 50 percent of providers implement standards above the minimum required, we anticipate a 0.7 percentage point reduction.

**Impact on Disparities:** The University of Wisconsin’s Population Health Institute suggests that improving child-care standards will reduce health disparities. However, Wisconsin’s communities with the highest prevalence of obesity also have fewer high quality providers relative to other parts of the state. If fewer child-care providers in these areas implement the higher standards, the extent to which the policy would reduce obesity disparities is questionable.

**Impact on Adult Autonomy:** This policy would have little impact on adults. Adults not working in child care and those without children would not experience any direct effects.

**Budgetary Implications:** The state and child-care providers would bear the costs of this program. Annually, the cost to the state would be approximately $500,000, and the training and material costs to all providers would be $4.2 million. The state Medicaid budget savings over 20 years would be low, estimated at $59,500.

**Interest Group Opposition:** Focus group reports suggest that parents with children in child care largely support regulation of providers and standards to ensure the health of their children, implying the adults with children in the program would be largely supportive. However, opposition to this policy option may emerge from the providers themselves, who would shoulder the largest burden of total costs, about 75 percent. They may oppose the policy outright or simply choose not to implement the higher standards. Both of these responses would limit the effectiveness of this policy option.

**Policy Option 3: School-Based Grant Program**

The Healthy, Hunger Free Kids Act of 2010 expanded regulations requiring schools participating in free and reduced lunch programs to include school wellness policies. While the U.S. Centers for Disease Control and Prevention provides some funding through the state of Wisconsin to develop such policies, many school wellness efforts are constrained by lack of time, adequate funding, promotion, and rigorous evaluation.

This policy creates a statewide grant-based, experimental program for kindergarten through eighth grade to systematically develop and rigorously evaluate school-based obesity prevention and wellness programs, such as Farm-to-School and Safe Routes to School. This policy is designed to include at least 25 school districts. Participating districts would be required to collect body mass index and other complementary biometric data. Additionally, data regarding program costs, student and teacher behavior changes, diet changes, and implementation measures would be collected. This grant program would better inform policy by revealing the most cost-effective and successful school programs.

**Cost-Benefit Results:** The state would cover centralized coordination and evaluation costs of the program at $445,000 per year. Districts would be funded at a level of $100,000 per year, for a total of $2.95 million per year. Our cost-benefit analysis indicated average net present benefits of $703 for a child experiencing the policy, with 97.9 percent of the simulations returning positive net benefits.

**Reduction in Obesity:** The impact of this option on the prevalence of obesity depends upon the extent to which policies are adopted statewide. With 25 districts receiving initial funding, the reduction in obesity prevalence would be 0.03 percentage points. Were half of all school districts in Wisconsin to implement programs after five years, the reduction would be 0.3 percentage points.

**Impact on Disparities:** Because this policy option targets children, has limited impact on adults. Adults not working in the school system or directly involved with the program would be unlikely to experience any effects or consequences of the program.

**Budgetary Implications:** Estimated savings to state Medicaid expenses over 20 years is $182,000. This cost would not offset the administrative and grant costs of the program.

**Interest Group Opposition:** This policy likely would be met with some opposition from parents as the evaluation of the programs relies substantially on the collection of student body mass index data. Experience from a comprehensive school-based obesity program in Arkansas suggests this policy would elicit concern from parents about the prospects of increased bullying, decreased child self-esteem, and worry about eating disorders. However, evaluations of school-based programs suggest these fears have not materialized in practice. Schoolteachers and administrators may also oppose this policy, as it is perceived as adding unnecessary responsibility that could detract from their base efforts to encourage personal and educational development of students.
Policy Option 4: Beverage Excise Tax

The rise in sugar-sweetened beverage consumption and its anticipated impact on childhood obesity have elicited legislative attempts to tax sugar-sweetened beverages. Research suggests that a 10 percent increase in price would reduce consumption of such beverages by up to 12 percent. Consequently, a tax on these drinks could substantially deter consumption and reduce the prevalence of obesity.

Several components of this policy option differentiate it from other proposed taxes. The sugar-sweetened beverage tax is based on the quantity of sugar, which varies by beverage, rather than the liquid volume. This targets one of the implicated causes of childhood obesity, excess sugar consumption. This option is based on an earlier proposal to levy a 1-cent tax on each gram of sugar in a beverage above the threshold of one gram per fluid ounce. Under this tax, a 12-ounce can of Coca-Cola containing 39 grams of sugar would be taxed the excess amount, or 27 cents. All drinks with excess sugar—except milk and 100 percent fruit juices—would be subject to this tax. This policy is also an excise tax, which forces consumers to experience higher prices before making purchasing decisions. Similar taxes on tobacco have demonstrated effectiveness in reducing consumption, particularly among youth.

This policy would cost Wisconsin $1.5 million in upfront costs and $1.25 million annually. These costs are extrapolated from estimates for the Vermont legislature for a proposed state-wide sugared beverage tax. Producers, consumers, and distributors also would incur economic costs. We do not include revenue to the state in our estimates, as it is a transfer from some state consumers to others.

Cost-Benefit Results and Reduction in Obesity: The cost-benefit analysis shows an average present net benefit of $644 per child with 98.1 percent of the simulations returning net benefits. This policy immediately would affect all children in Wisconsin who drink sugar-sweetened beverages. The reduction of obesity prevalence would be 0.2 percentage points.

Impact on Disparities: This policy option has the potential to reduce obesity disparities among at-risk groups. Evidence suggests low-income children and adolescents consume a higher percentage of daily calories from sugar-sweetened beverages than their high-income counterparts. Thus, low-income children may reduce consumption comparatively more as a result of the tax. However, other research shows that individuals with low incomes have a more inelastic demand for sugar-sweetened beverages than those with high incomes. In other words, a sugar-sweetened beverage tax might decrease consumption at a higher rate for high-income children than for low-income children. Given these conflicting perspectives, we conclude that a beverage tax is unlikely to reduce disparities.

Impact on Adult Autonomy: This policy will have an impact on all who purchase sugar-sweetened beverages, including the adult population. Estimates suggest between 60 and 70 percent of adults consumed such a beverage each day. The tax revenue associated with beverage consumption averages to $87 per person per year, but is likely to be higher for those groups that consume the greatest amount of sugar-sweetened beverages—adolescents and young adults.

Budgetary Implication: The impact of this policy on Wisconsin’s budget would emerge from reductions in Medicaid spending, the cost of administering the tax, and sugar-sweetened beverage tax revenue. The state would receive approximately $417 million per year, which would more than cover upfront and ongoing implementation costs of the tax. Wisconsin’s Medicaid savings is expected to be $447,000 over 20 years.

Interest Group Opposition: Opposition to this policy likely would be substantial. This option effectively creates a 30 percent tax on sodas, corresponding to an estimated 37 percent reduction in consumption. Beverage industries would undoubtedly oppose this policy as a threat to their economic viability, their ability to provide continued employment, and a negative effect on retailers selling their products.

Tables 3 and 4 summarize the results of our analysis. Table 3 presents the dollar value of our benefit and cost estimates for each of the options with their standard deviations. Table 4 summarizes our overall conclusions in terms of net benefits, impacts on childhood obesity prevalence, disparities in obesity, fiscal effects, and political feasibility.

Recommendation

Targeting children throughout their development would build upon their learning experiences and reinforce healthy behaviors. Although implementing all of the proposed policies would be the most direct way to reduce the prevalence of childhood obesity, some prioritization is necessary.

Each policy has particular strengths and weaknesses; three of the four options have net benefits. The home-visiting program has the greatest potential to reduce disparities, although its benefits do not outweigh the costs. The child-care policy promises the largest reduction in obesity; however, the costs to providers are large, suggesting they may oppose the policy or choose not to participate. The school policy can more rigorously evaluate current school-based programs in Wisconsin and add to the knowledge base, but adoption beyond the pilot program is uncertain. Although the sugar-sweetened beverage tax could raise enough revenue to finance the other three policy options, it is likely to meet the strongest opposition.

While Wisconsin may not have the capacity to adopt all four policies concurrently, evidence we have provided should assist the state to choose a policy or combination of policies that is most appropriate for effectively addressing the childhood obesity epidemic in Wisconsin and creating lasting improvements in the health of its children.
Table 3. Summary of Each Childhood Obesity Reduction Policy’s Costs, Benefits, Net Benefits, Percentages of Simulations Returning Positive Net Benefits
Numbers in parentheses are standard deviations.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Home Visiting</th>
<th>Child Care</th>
<th>School Grant</th>
<th>Beverage Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Childhood medical</td>
<td>$32 (19)</td>
<td>$47 (27)</td>
<td>$8 (4)</td>
<td>$5 (3)</td>
</tr>
<tr>
<td>Adult medical</td>
<td>$1,116 (814)</td>
<td>$901 (680)</td>
<td>$158 (91)</td>
<td>$108 (86)</td>
</tr>
<tr>
<td>Absenteeism – families</td>
<td>$38 (30)</td>
<td>$35 (23)</td>
<td>$3 (2)</td>
<td>$3 (3)</td>
</tr>
<tr>
<td>Absenteeism – schools</td>
<td>$41 (25)</td>
<td>$36 (22)</td>
<td>$6 (3)</td>
<td>$3 (2)</td>
</tr>
<tr>
<td>Productivity – adult</td>
<td>$186 (142)</td>
<td>$175 (107)</td>
<td>$49 (28)</td>
<td>$35 (28)</td>
</tr>
<tr>
<td>Quality of life – child</td>
<td>$4,366 (2,488)</td>
<td>$2,212 (1,280)</td>
<td>$366 (181)</td>
<td>$267 (164)</td>
</tr>
<tr>
<td>Quality of life – adult</td>
<td>$2,126 (1,597)</td>
<td>$1,742 (1,352)</td>
<td>$556 (317)</td>
<td>$404 (319)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$7,845 (3,037)</strong></td>
<td><strong>$5,153 (1,974)</strong></td>
<td><strong>$1,156 (370)</strong></td>
<td><strong>$829 (368)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Costs</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative</td>
<td>$994 (92)</td>
<td>$54 (5)</td>
<td>$16 (1)</td>
<td></td>
</tr>
<tr>
<td>Program/grant</td>
<td>$7,225 (983)</td>
<td>$298 (29)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Providers</td>
<td>$3,148 (55)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Producer surplus</td>
<td></td>
<td></td>
<td></td>
<td>$120 (20)</td>
</tr>
<tr>
<td>Consumer surplus</td>
<td></td>
<td></td>
<td></td>
<td>$189 (43)</td>
</tr>
<tr>
<td>Distributor</td>
<td></td>
<td></td>
<td></td>
<td>$6 (3)</td>
</tr>
<tr>
<td>Marginal excess tax burden</td>
<td>$1,806 (225)</td>
<td>$234 (22)</td>
<td>$88 (8)</td>
<td>-$163 (32)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$9,031 (1,229)</strong></td>
<td><strong>$4,374 (156)</strong></td>
<td><strong>$443 (44)</strong></td>
<td><strong>$184 (58)</strong></td>
</tr>
</tbody>
</table>

| Per-Child Net Benefits       | -$1,207 (3,350)| $776 (1,996)| $703 (392)  | $644 (322)   |

| Percentage Positive Benefits | 34.3%         | 63.0%       | 97.9%       | 98.1%        |

Table 4. Summary of Policy Analysis for Each Childhood Obesity Reduction Policy

<table>
<thead>
<tr>
<th>Policy Goals</th>
<th>Impact Categories</th>
<th>Home Visiting</th>
<th>Child Care</th>
<th>School Grant</th>
<th>Beverage Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achieve Efficiency</td>
<td>Monetized costs and benefits</td>
<td>-$1,207</td>
<td>$776</td>
<td>$703</td>
<td>$644</td>
</tr>
<tr>
<td></td>
<td>Prevalence of childhood obesity (percentage point change)</td>
<td>-.06</td>
<td>-.7</td>
<td>-.3</td>
<td>-.2</td>
</tr>
<tr>
<td>Reduce Disparities</td>
<td>Socioeconomic and racial groups</td>
<td>Will reduce</td>
<td>May reduce</td>
<td>May reduce</td>
<td>Unlikely to reduce</td>
</tr>
<tr>
<td>Feasibility</td>
<td>Effect on adults</td>
<td>Small</td>
<td>Small</td>
<td>Small</td>
<td>Large</td>
</tr>
<tr>
<td></td>
<td>Impact on Wisconsin’s budget</td>
<td>Small</td>
<td>Small</td>
<td>Small</td>
<td>Large</td>
</tr>
<tr>
<td></td>
<td>Interest group response</td>
<td>Low opposition</td>
<td>Some opposition</td>
<td>Some opposition</td>
<td>Substantial opposition</td>
</tr>
</tbody>
</table>
The La Follette School congratulates international public affairs 2013 alumni

Ingrid Aune
Yanyan Chen
Christina Miller
Joshua Williams

for winning the 2013 national MaryKathryn Kubat Award from the American Association for Budget and Program Analysis

They analyzed a U.S. incentive-driven foreign aid program run by the Millennium Challenge Corporation, an independent U.S. agency that uses performance as the basis for potential eligibility for international aid funding. Despite previous observations that the “MCC incentive effect” prompts countries to change their policies to meet aid eligibility requirements, the authors concluded no strong quantitative evidence supports the existence of an overall MCC incentive effect.
Public Service Proves Fulfilling, Rewarding

By Bob Lang

Thank you for inviting me to be a part of the celebration of your commencement—graduation from the University of Wisconsin—Madison’s Robert M. La Follette School of Public Affairs. I have had the privilege of serving in Wisconsin’s Legislative Fiscal Bureau with many La Follette graduates, including the 10 who are currently colleagues of mine at the bureau.

I have two favorite commencement speeches.

The first, written 410 years ago, was not delivered to a graduating class, but, rather, to an individual. It was, however, a commencement address in the true meaning of the word—that is to recognize a beginning—a transition from the present to the future. And, in the traditional sense of commencement speeches, it was filled with advice.

The speech was given by a father to his son, in Shakespeare’s Hamlet. Polonius, chief councilor to Denmark’s King Claudius, gives his son Laertes sage advice as the young man patiently waits for his talkative father to complete his lengthy speech and bid him farewell before the son sets sail for France to continue his studies.

“Those friends thou hast, … grapple them to thy soul with hoops of steel.”
“Give every man thine ear, but few thine voice.”
“Neither a borrower nor a lender be.”
“This above all,—to thine own self be true; and it must follow, as the night the day, thou canst not then be false to any man.”

The second of my favorite commencement addresses was delivered to a graduating college class by Thornton Melon as played by Rodney Dangerfield in the 1986 classic Back to School, parts of which were filmed on the University of Wisconsin–Madison campus.

“And so, to all you graduates—as you go out into the world, my advice to you is …
“Don’t go.”

Bob Lang is director of the Wisconsin Legislative Fiscal Bureau, a nonpartisan service agency of the Wisconsin Legislature. After earning a master’s degree from the University of Wisconsin in 1971, he became a legislative fiscal analyst in September 1971 and became bureau director in July 1977. The La Follette School’s class of 2013 invited him to give the commencement address. This article is adapted from his remarks given May 19 in the Assembly Chamber of the Wisconsin Capitol.
Eagleton Institute of Politics at Rutgers University, he has written numerous publications on state government and has long been recognized as the leading authority on state legislatures and the legislative process. I have known Alan for many years and was pleased to see him and spend some time with him after his address.

I asked him to sign his book for me. He inscribed the book as follows—“To Bob—over three decades on the firing line and hit by fewer than a thousand bullets.”

As a nonpartisan working for decades in a highly partisan setting, I interpreted Alan’s words as a compliment and succinct summary of my career.

My comments may not be as profound as those of Polonius or as entertaining as those of Thornton Melon—but I want to share with you some of my thoughts and experiences that have shaped me and my work with the Wisconsin Legislature.

At the onset of my career, it was my fortune to have been mentored by three individuals who earned state and national recognition for their many years of legislative service.

The first was Dale Cattanach. With the aid of a three-year grant from the Ford Foundation, Dale began the Fiscal Bureau in the mid-1960s. He remained its director until 1977 when he was appointed secretary of the Department of Transportation under Governor Schreiber. He then finished his distinguished career of public service for many years as the State’s auditor and head of the Legislative Audit Bureau. Dale hired me in September 1971.

He was a superb analyst and an astute observer of, and participant in, the workings of the Legislature. He set high standards for himself and demanded excellence from those who worked with him.

The second was Dr. H. Rupert Theobald. Rupert was born in Germany. In 1950, he came to the states to study at the University of Wisconsin. In 1957, he applied for a civil service position with the Legislative Reference Bureau. When applying for a civil service position, preferential points were given to anyone who was a veteran. Rupert was a veteran and filled out his application as such. During his interview for the position he was asked about his service and indicated that he served with the German Army in World War II. When questioned about his application, Rupert said that the form only asked if one was a veteran, it didn’t ask of which country. He was granted the points and selected for the position. In 1964, he became the chief of the Reference Bureau; a position he held for 30 years.

Rupert was an excellent researcher and bill drafter. He was instrumental in bringing the Legislature into the modern age of technology and in developing computer applications for bill drafting and other aspects of legislative work.

The third was Bonnie Reese. Bonnie was from Logan, Utah, and attended Utah State University. She was the valedictorian of her 1953 college graduating class. Bonnie came to Wisconsin and entered graduate school at UW-Madison. In 1957, she accepted a position with the Wisconsin Legislative Council staff and became the head of that agency in 1971—the first woman in Wisconsin named to direct any office of state government.

She rightly earned the respect, confidence, and trust of all in state government, regardless of political persuasion, or branch, because of her knowledge, integrity, and leadership skills.

I took every opportunity I could to learn from the three of them—and each was a willing mentor.

A common thread of integrity, intellect, talent, and hard work bound these three together. I was greatly influenced by them. They instilled in me the value of public service and the right that our state’s citizens had to expect dedication and excellence from those of us privileged to serve them.

I was appointed director of the Legislative Fiscal Bureau in July 1977. The appointing authority was the Legislature’s Joint Committee on Legislative Organization; a 10-member committee comprising the majority and minority party leaders of the Senate and Assembly. At the time, the Democrats were the majority party in both houses and had six of the 10 votes on the Joint Committee. Then-Senator Bill Bablitch, the Senate majority leader, nominated me for the position. Given the non-partisan nature of the Fiscal Bureau, it was important to me and the Bureau that my candidacy would be supported with votes from each party.

Fortunately, the four Republicans supported Senator Bablitch’s motion. The Republicans were John Shabaz, who would later be appointed by President Reagan to a federal judgeship; Tommy Thompson, who was subsequently elected governor of Wisconsin and served as Secretary of the federal Department of Health and Human Services under President George W. Bush; James Sensenbrenner, who was later elected to, and still serves in, the U.S. House of Representatives; and Clifford “Tiny” Krueger, the minority leader of the Senate.

As a young man Tiny became fascinated with the circus. In the summers of 1936 and 1937, while still in high school, he joined the Seils-Sterling Circus, based in Sheboygan, that travelled throughout the midwest. Weighing 425 pounds, he performed under the name—“Jolly Tiny.”

He was devoted to Robert M. La Follette and La Follette’s Progressive Party. In 1942, he ran for the state Senate as a member of the Progressive Party and lost. In 1946, the Progressive Party folded, and although a number of its members moved to the Democratic Party, Tiny joined the Republican Party, which had been the political base that Robert La Follette left decades earlier.

Tiny was elected to the Senate in 1946 as a Republican, but never abandoned his progressive principles. In 1977, he inserted into the state’s budget an appropriation of $12,000 for the purchase and permanent display in the State Capitol of Jo Davidson’s bust of Robert M. La Follette. Sr. Jo Davidson was the sculptor who made the statues of La Follette and Oklahoma’s Will Rogers, which are housed in the U.S. Capitol.

In the 1981 session of the Legislature, I had briefed Senate Republicans on the state’s budget in the afternoon of when the vote on the budget was to be taken. Following that, Senator Krueger called me into his office. He was seated in the large,
oversized chair that was made for him. He was undecided as to his vote on the budget and, I thought, wanted to discuss further with me, some of its provisions.

I began to review some of the bill’s major provisions. Shortly thereafter, he stopped me and said “Bob, what would the old man do?” I didn’t understand his question and said, “Sir?” asking him to repeat it. He again said “What would the old man do?” and nodded his head to a portrait of Robert M. La Follette that hung in his office.

It was a moment that I will never forget—clearly one of the most memorable in all of my years with the Legislature.

I was, for that moment, in the presence of two of the great political figures of this state—Robert M. La Follette, and his last disciple to run on the Progressive ticket—Tiny Krueger.

I don’t remember how he voted. But I do know that his vote was cast with conviction to the principles that he established throughout his life.

I was fortunate to have been in the Senate chamber when Senator Krueger gave his farewell speech in 1983. And he urged his colleagues to remember La Follette’s dream of universal dignity. He said, “You must remind those who want to delay the dream that human dignity is not a privilege dependent upon prosperity, it is a right upon which prosperity itself depends.”

He concluded with the words of St. Paul, “I have fought the good fight. I have kept the faith.”

Over the years, I have had an opportunity to visit many state capitol buildings across the country. Although admittedly biased, I have yet to find one that matches the architectural design and majesty of Wisconsin’s Capitol.

I have observed one other difference about this building and all of the others that I have visited. State capitols commonly display statutes, plaques, portraits, and other recognitions of elected officials who have served in the state or federal government—governors, members of the United States Congress, cabinet secretaries, and legislative leaders.

In this Capitol, such recognition is provided to but two elected officials—Robert M. La Follette, whose bust is in the rotunda, and Albert Hall. Hall is recognized on the plaque to my right.

Albert Hall was from Knapp, Wisconsin—a small village in Dunn County, near the UW-Stout campus. Today, Knapp has a population of just 465.

Hall was elected to the state Assembly in 1890 and reelected for five consecutive terms. He spent years fighting what he believed was corruption with the state’s railroads—including low tax rates, higher fares than neighboring states, and free passes for elected officials.

His efforts proved to be the first step toward addressing ethical issues in state government, reforming the tax code and, ultimately, ushering in Wisconsin’s legendary era of progressive reforms.

Upon his death in 1905, Albert Hall was the first person to be honored with a bronze memorial plaque inside the State Assembly. That year the Assembly and Senate issued a resolution praising the man “whose noble record should serve as an inspiration worthy of emulation.”

Another 70 years would pass before recognition in the Capitol was given to the second elected official when Legislature approved the bust of Robert La Follette for display in the rotunda.

However, four other individuals have been honored and recognized in the Capitol for their service to the people of this state. Each had distinguished careers as staff in non-partisan service to the Legislature.

The first so honored was Charles McCarthy. He was born in Brockton, Massachusetts in 1873. He graduated from Brown University. While at Brown, although weighting only 128 pounds, he was a member of the football team and earned All-American honors. He then entered law school at the University of Georgia. To pay for school, he coached the university’s football team, following the legendary coach “Pop” Warner, and compiled a 6-3 record in 1897 and 1898; including wins each year over Georgia Tech and Clemson.

After receiving his law degree from Georgia, he enrolled in the University of Wisconsin at Madison. He was drawn to Madison because of the work of Richard Ely, a renowned economist and leader of the progressive movement. While at the University, McCarthy studied history, politics, and economics, and was awarded a Ph.D. in history 1901.

Following his studies, McCarthy was hired to head a newly created legislative agency—the Legislative Reference Bureau. The Bureau was the first agency of its kind in the nation to provide professional, non-partisan research, and bill drafting services to a state legislature.

At the same time, Robert M. La Follette was elected governor of Wisconsin.

La Follette and the progressives in the Legislature came to rely on McCarthy. He helped write many of their major reform laws including the civil service law (1905), the regulation of utilities (1907), and in 1911, the workers compensation and workplace safety law, and the nation’s first individual income tax.

In 1912, McCarthy published The Wisconsin Idea, a summary of goals and accomplishments of the progressive movement.

In addition to his work with the Wisconsin Legislature, McCarthy was an advisor to presidents Theodore Roosevelt,
Throughout all of my years at the Fiscal Bureau, I have been privileged to have been part of an incredible staff—highly talented individuals who chose to enter the field of public service. They came from different academic backgrounds—law, economics, history, political science, and business. Many, like you, graduated from schools of public policy—Michigan, Minnesota, Texas, Syracuse, Harvard, Wisconsin.

When I had the opportunity to become the fiscal bureau's director in 1977, I had two concerns about accepting the position.

The first was that I would be following a legend, Dale Cattanach, and the standards that he set not only for Wisconsin, but for legislative fiscal offices throughout the country.

The second was that I had very limited knowledge of much of the subject matter and issues of state government. Although I was comfortable in the areas that I had worked on as an analyst—school finance, vocational education, and property taxes—I had almost no exposure to health care, transportation, income maintenance programs, the environment, and a host of others.

I could do nothing about my first concern but accept it.

I decided that I would set out to address my second concern and learn everything I could about each state agency, program, and budget. I defined my role as the director of the fiscal bureau to be one where I would be more knowledgeable about each of the assignments in the bureau than the analysts responsible for these areas.

After six weeks on this course, I realized that I had neither the physical nor mental capacity to achieve this goal. I abandoned it.

I came to the realization that my primary responsibility was to support the others on the staff, not compete with them. My role was to provide resources, hire talent, and give that talent the opportunity to learn, grow, and succeed.

I am approaching the sunset of my journey—you are at the sunrise of yours. I hope that your path will be filled with mentors who will guide you, and individuals who will inspire you. I hope that you respect the work that you engage in, and the people that you work with and for. I hope that you use your talents and knowledge to the fullest. I hope that you find your work interesting, challenging, rewarding, and fulfilling. And, as your career enters its twilight, I hope that you can look back and proudly say that you’ve been hit by fewer than a thousand bullets.

I will conclude by reading a portion of the preface that Charles McCarthy wrote in his 1912 book, The Wisconsin Idea.

His words of 101 years ago certainly apply to me today, and I believe to you, also.

“I, a wandering student, seeking knowledge, came knocking at the gates of the great University of Wisconsin, and it took me in, filled me with inspiration, and when I left its doors the kindly people of the state stretched out welcoming hands and gave me a man's work to do.”

Thank you.
Impact of Excluding Retirement Income from State Taxation

By Ed Cubero, Andrew Kleps, and Angela Waltz

The economic benefit of offering targeted income tax preferences for the elderly is a growing point of debate among policymakers in states across the United States. These tax preferences are increasing in popularity, and although often controversial, they have already consumed large amounts of potential tax revenue. The federal government’s partial exclusion of Social Security benefits from taxable income is estimated to reduce federal tax revenue by about $30 billion per year. Many states offer even more generous tax treatment of older adults’ income. These state policies range in scope; some states fully exclude Social Security income, some add to that a partial exclusion of pension income, while others fully exclude all retirement income from state income tax.

Legislation in Wisconsin proposes to exclude all retirement income from state taxation, following the lead of a handful of other states. In March 2013, companion bills were introduced in the Wisconsin Senate and Assembly that would gradually eliminate state taxation of most retirement income (including pensions, annuities, and tax-deferred retirement accounts such as 401(k)s, 403(b)s, and IRAs). This legislation proposes a phased-in retirement income exemption of up to $20,000 for all taxpayers, regardless of income or age. In 2018 the phase-in would be complete, and the vast majority of Wisconsin taxpayers would owe no state income tax on their retirement income.

Proponents of expanding retirement income tax preferences argue that these tax breaks are necessary to limit out-migration of a state’s retirees, and to attract middle-income and wealthy retirees from other states. Younger retirees with considerable disposable income could benefit Wisconsin’s economy by maintaining or expanding the sales and property tax base, supporters argue. Growth in the state’s senior population resulting from the aging of the baby boom generation lends a sense of urgency for state action.

Wisconsin’s income tax code already offers significant tax breaks to older adults by excluding all Social Security benefits from taxation and exempting up to $5,000 of pension and income for older single-filers with Federal Adjusted Gross Income below $15,000 and joint-filers with incomes below $30,000. Military pensions and pensions received by individuals who were members of the Milwaukee city and county retirement funds, the state teachers’ retirement fund, and the civil service retirement system prior to 1964 are exempt from taxation. In 2012, tax breaks for Wisconsin seniors cost the state $326.4 million, which represents a 4.4 percent loss in potential income tax revenue from that year.

This article considers the impact of offering a full exclusion of retirement income from taxation in Wisconsin. We examine (1) whether fully excluding retirement income would decrease elderly migration from Wisconsin and attract new elderly residents to the state; (2) the impact of the policy on the tax burden across groups with different levels and sources of income; (3) the loss in state income tax revenue projected through 2040 resulting from a full exclusion of retirement income; and (4) the impact of alternative ways the state could offset the revenue loss generated by these tax preferences. Our findings suggest that migration in and out of Wisconsin would not change, that wealthy retirees would receive the bulk of tax savings, and that young working adults would pay a larger share of income tax.

Interstate Migration Patterns of Older Adults

Migration rates across the United States and in Wisconsin are low for adults older than 55. U.S. Census data show that 1.3 percent of individuals ages 55 to 64 and 1 percent of individuals ages 65 and up moved to different states between 1995 and 2000. Census data also show that just more than half of all older adult migrants relocate to one of 10 top destination states. When moving to new states, older migrants prefer destinations with warmer climates and lower cost of living. A 2003 study found elderly migration patterns were consistent across time, with several states maintaining high rates of in-migration and others experiencing consistently high rates of out-migration. The U.S. Census Bureau’s American Community Survey from 2007-11 shows that older Wisconsin residents rarely move out of state; only 0.8 percent of all adults ages 55 and older leave each year. In fact, this group makes up only 11 percent of all movers leaving Wisconsin, while 59 percent of out-state movers are younger than 30.

There is an emerging consensus among public finance scholars that state retirement income tax preferences have little to no impact on elderly interstate migration. A 2012 study that
analyzed U.S. census data from 1970-2000, controlling for changes across time and among state policies found no consistent effect of state income tax breaks on elderly interstate migration. Earlier studies found that substantial tax reductions would be necessary to attract elderly migrants to a state and that the economic cost of these broad-based tax breaks would far outweigh the benefits gained from a handful of new migrants. The research suggests that, given Wisconsin’s low migration rates combined with its already favorable tax preferences for older adults, a further reduction in the tax liability for retired people would have minimal impact on in-migration of older adults.

Examining the interstate migration rates of Michigan and Minnesota highlights the similarities between Wisconsin and its neighbors, despite wide policy differences in state treatment of income tax. Minnesota offers few tax preferences for older adults, taxing all pension income and up to 85 percent of Social Security income. Michigan, on the other hand, fully exempted all retirement income until tax year 2012. Table 1 shows net migration as a percentage of total population by age group using American Community Survey data for 2007 to 2011. Although income tax preferences for the elderly differ considerably, Michigan and Minnesota have net migration patterns similar to Wisconsin. In fact, Michigan, which had large exemptions for retirement income, saw higher out-migration than Wisconsin and Minnesota. These observations support the research findings that income tax policy is not a significant driver of elderly migration.

From 2007 to 2011, about 60,000 people ages 25 and older left Wisconsin each year, resulting in an average yearly loss of 1.7 percent of Wisconsin Adjusted Gross Income (WAGI). Of those migrants, about 80 percent were younger than 55, and this out-migration of younger adults represented 80 percent of the WAGI lost. Both numbers of movers and the percentage of WAGI lost to out-of-state migration (not net migration) are higher for younger age groups. Analysis of American Community Survey data from the same five-year period supports this finding, showing that revenue losses from out-migrating residents ages 24 to 44 are greater than losses from residents ages 55 and older, at 1 percent versus 0.3 percent, respectively. A tax break that targets retirement income is intended to retain and attract Wisconsin revenue; however, migration patterns show that more WAGI is lost to other states due to the migration of younger individuals, rather than people with retirement income. Although revenue losses are small for both groups, these data suggest that tax preferences targeted toward reducing state out-migration of older adults may be misplaced.

Horizontal Inequity

Wisconsin residents ages 65 and older have lower levels of poverty than younger residents. Nearly 17 percent of residents younger than 65 have incomes that place them in the bottom 20 percent of the population ($15,990 per year or less), while 4.5 percent of residents 65 and older have incomes in this bottom quintile. One reason for this disparity is older adults’ Social Security income.

The sources and relative shares of income also vary between older and younger Wisconsinites. We divided Wisconsin taxpayers into three age groups: 25 to 54 (working age), 55 to 64, and 65 and older. We compared the sources of income using Federal Gross Income and WAGI. For residents 65 and older, retirement income makes up a far smaller share of WAGI (46 percent) than Federal Gross Income (65 percent). This difference is due to Wisconsin’s more generous retirement income tax preferences as compared to federal treatment, including the full exclusion of Social Security income from state taxation. In 2010, WAGI excluded $13.8 billion of Federal Gross Income from retirement sources. On the other hand, Wisconsin residents ages 25 to 54 have very little difference in percentages of income by source between Federal Gross Income and WAGI, indicating that older Wisconsinites are treated more preferentially in the Wisconsin tax system than are working age people. This horizontal inequity stems from the combination of tax exemptions that favor retirement income.

### Table 1: Net Migration Rates for Minnesota, Wisconsin, Michigan

<table>
<thead>
<tr>
<th>Age group</th>
<th>Minnesota</th>
<th>Wisconsin</th>
<th>Michigan</th>
</tr>
</thead>
<tbody>
<tr>
<td>55 to 64</td>
<td>-0.2%</td>
<td>0.0%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>65 to 74</td>
<td>-0.5%</td>
<td>-0.2%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>75 and older</td>
<td>0.1%</td>
<td>-0.2%</td>
<td>-0.2%</td>
</tr>
</tbody>
</table>

Source: American Community Survey 2007-2011

### Table 2. Average Tax Rates by Age under Current Policy and Exclusion

<table>
<thead>
<tr>
<th>Income Quintile</th>
<th>25 to 54</th>
<th>55 to 64</th>
<th>65 and older</th>
<th>Full Exclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poorest</td>
<td>0.2%</td>
<td>0.4%</td>
<td>0.1%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Second</td>
<td>1.8%</td>
<td>1.3%</td>
<td>0.1%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Middle</td>
<td>3.4%</td>
<td>2.5%</td>
<td>0.5%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Fourth</td>
<td>4.1%</td>
<td>3.4%</td>
<td>1.3%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Wealthiest</td>
<td>5.1%</td>
<td>5.0%</td>
<td>3.6%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on Wisconsin Department of Revenue data
Wisconsin residents ages 65 and older pay a significantly smaller proportion of their income in taxes than do younger individuals in the same income quintile. The greatest disparity is in the second quintile, where, under the current policy, working age individuals face an average income tax rate 18 times higher than those ages 65 and older.

Table 2 compares average tax rates under current policy to a full exclusion of retirement income. It shows that fully excluding all retirement income from state taxation would further increase tax preferences for Wisconsin seniors. A targeted policy excluding retirement income from state taxation would impose a lower income tax burden for wealthy retired Wisconsin residents 65 and older than the burden for younger persons earning substantially less income.

**Larger Benefits to Higher Income Retirees**

Most taxable retirement income in Wisconsin goes to older adults in the two highest income quintiles. Among those 65 and older, more than 44 percent of retirement income goes to those in the wealthiest quintile; nearly 33 percent is received by those in the second wealthiest quintile. As a result, an exclusion of retirement income from the Wisconsin income tax base would award the bulk of the benefits to the state’s older wealthy residents. In addition, retirement plan contributions are made on a pre-tax basis during an individual’s working years, so fully excluding retirement income means that this income would never be subject to state taxation. Because retirement income as a percentage of total income increases with total income, leaving retirement income untaxed yields the greatest benefit to the state’s wealthiest older residents. The preferential treatment of retirement income also favors those who live on retirement income rather than earned income. Working individuals are taxed at a higher average rate when compared with taxpayers of the same age who are no longer working. For example, a greeter at a nationwide low-cost retail chain would face a higher average tax rate than his recently retired manager.

Figures 1 and 2 compare the treatment of high-income retired individuals to that of people with lower incomes. Given the already low tax liability of residents ages 55 and older in the two lowest income quintiles, a full retirement income exclusion would principally benefit the more affluent elderly. More than half of the total benefit from the retirement income exclusion would accrue to the wealthiest older adults, as Figure 1 demonstrates. On average the wealthy would receive far greater savings than people in lower income quintiles, as Figure 2 shows.

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**Opportunity Costs**

We estimate that a full retirement income exclusion would have reduced income tax revenues by $473 million in 2010, which represents approximately 8 percent of the state’s 2010 income tax revenue. However, this policy would result in Wisconsin giving up future revenue in decades to come, because the population is expected to age dramatically. The share of Wisconsin’s population that is 18 to 64 years old is expected to remain relatively stable at about 55 percent, while the percentage of people ages 65 and older is projected, from 14 percent to 24 percent of the total population. Most of this growth is expected to occur by 2030, when the final members of the baby boom generation (those born between 1946 and 1964) turn 65. Nearly all of the growth of Wisconsin’s aging population is attributed to current residents, rather than an influx of retirees relocating to the state.

As baby boomers retire, more of Wisconsin’s taxable income is expected to come from retirement sources. Given the already low tax liability of residents ages 55 and older in the two lowest income quintiles, a full retirement income exclusion would principally benefit the more affluent elderly. More than half of the total benefit from the retirement income exclusion would accrue to the wealthiest older adults, as Figure 1 demonstrates. On average the wealthy would receive far greater savings than people in lower income quintiles, as Figure 2 shows.

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**Figure 1. Distribution of Savings under Full Exclusion of Retirement Income from Taxation in Wisconsin**

If Wisconsin were to exclude all retirement income from the income tax, 83% of savings would go to individuals 55 and older, with 55% of the savings going to the wealthiest fifth of those older adults. Seventeen percent of the savings would go to people 54 and younger.

- 54.8% wealthiest quintile of 55 and older
- 20.9% second wealthiest quintile of 55 and older
- 6.4% middle quintile of 55 and older
- 20.9% second poorest quintile of 55 and older
- 0.7% poorest quintile of 55 and older
- 17.1% individuals 54 and younger

Source: Authors’ calculations based on Wisconsin Department of Revenue data.
exclusion through 2040, we used the $473 million estimate for 2010, adjusted for inflation and projected demographic changes. We assumed that the average individual within each age or income cohort would not change, only the population within each age or income cohort. This projection indicates that lost revenue resulting from a full retirement income exclusion grows substantially each year.

Along with foregone revenue, any targeted tax cut carries an opportunity cost in the form of other types of tax cuts that could have been offered as alternatives. For example, Wisconsin income taxes could be lowered by 8.14 percent for all individuals to equal the $473 million value of the full exclusion of retirement income in 2010.

**Policy Implications**

Because the Wisconsin Constitution requires the legislature to pass a balanced budget, a full exclusion of retirement income means that foregone revenue would have to be offset by reductions in spending, increases in revenues from other sources, or a combination of service cuts and increases in taxes and fees. We consider three ways to offset the revenue loss that would result from full exclusion of retirement income: (1) an increase in the state income tax rate; (2) an increase in the state sales tax rate; or (3) reductions in state government expenditures.

We use $473 million as the target value to be addressed by some combination of the policy options noted above. To calculate the increase in taxation of other sources of income to make up the lost revenue, we estimate that the average tax rate on non-retirement income would have to be increased by about 10 percent.

The 5 percent sales tax would have to be increased by 0.6 percent to compensate fully for the $473 million loss resulting from the retirement income tax exclusion. An even higher sales tax increase might be needed if sales activity declined in response to the higher rate.

If legislators chose to just cut spending to make up $473 million, they would have to make an across-the-board cut of 3.7 percent in general fund spending, based on total General Purpose Revenue expenditures of $12.8 billion in 2010. If the offset came just from state spending on school aids for kindergarten through 12th grade, funding would have to be cut by 9.3 percent. If the offset came from Correctional Services, the program budget would see a 44 percent reduction, while the University of Wisconsin System’s budget would be reduced by 46 percent. Shared revenue distributed to local governments would have to be cut by 58 percent. These figures are just a sample of possibilities, illustrating the magnitude of the impact on Wisconsin’s finances if all retirement income were exempted from state income tax. Instead of budget cuts alone, legislators could choose to combine budget cuts with tax increases.

**Conclusion**

A full exclusion of retirement income from state taxation would increase both horizontal and intergenerational inequity in Wisconsin; older residents would gain, but these gains would come at the expense of working age and younger residents. Moreover, most of the benefits from the policy change would go to wealthier retirees. Given the minimal impact of taxes on migration, a full retirement income tax exclusion would provide little economic benefit for Wisconsin. To implement this policy, the state would face inevitable decisions about how to cut services or raise other taxes, potentially undercutting Wisconsin’s attractiveness as a great place to live.
clearly met the expectations of at least one of the conference organizers from 20 years ago, then-La Follette Professor Don Kettl, whose idea was “to bring together an extraordinarily rich and diverse collection of scholars who share a common mission: to build an approach that is, at once, relevant to practice and grounded in theory.”

Today, the Public Management Research Conference is widely perceived as the highest quality research venue for scholars focused on understanding today’s challenges in public management. It is sponsored by the Public Management Research Association, which publishes the *Journal of Public Administration Research and Theory*, the top-ranked journal in the field of public affairs.

A quick paging through the nearly 100-page conference program gives a sense of the variety covered by this year’s conference: diversity, human resources, social media, e-government, motivation, measurements, non-profit management, organizational theory, higher education, networks, leadership, fiscal management, contracting, and much, much more.

Scholars, one-third of them graduate students, circulated between sessions, huddling in small groups with coffee cups to discuss what they had just heard, challenging each other on ideas and concepts, and cornering the presenters to ask follow-up questions for research or clarification. The excitement was palpable.

If you want to know more about what was discussed, the conference papers are online at http://www.union.wisc.edu and pictures of the conference are at http://www.union.wisc.edu/pmra2013/photos.html

The heaviest lifting for the conference was done by two top organizers at the La Follette School, Director Susan Yackee and Professor Don Moynihan.

Don did double duty as an organizer and a major presenter, focusing on his research related to performance management.

While people outside the social sciences know the University of Wisconsin-Madison for its breakthroughs in hard sciences, like the discovery of Vitamin A or stem cell research, they often overlook the campus’ record on social sciences, although equally impressive (think Social Security and child labor laws).

Don is challenging that hard science stereotype with his recent work on performance management. Generally, performance management systems have emerged worldwide in the last two decades as a way to focus internally (making government more efficient by highlighting who performs best) and externally (connecting citizens better with the work of government).