

WI Dept. of Workforce Development Sends Mixed Signals on Growth of Wisconsin's Economy

December 2010

Analysis Highlights

- ❖ With thousands of Wisconsinites out of work, the state budget deficit at an all time high of \$3.3 billion¹ and expectations for it to skyrocket to \$5.4 billion in 2011², the Wisconsin economy remains in a precarious position.
- ❖ Wisconsin lost 5,200 nonfarm jobs in the month of November and remains 150,000 jobs shy of its pre-recession (2006) totals. Of the 5,200 jobs lost in the month of November, 4,800 were in the private-sector,³ and 400 were government jobs
- ❖ The only encouraging news to come out of the report is that 2,600 new manufacturing jobs were created in November 2010.
- ❖ In order to restore the Wisconsin economy lawmakers from both parties should:
 - Cut taxes for small businesses,
 - Reducing the corporate/business tax rate,
 - Invest more money in business research and development at state universities, and
 - Create a better climate for *Fortune 500* businesses.

The Wisconsin Department of Workforce Development released a report indicating that unemployment in Wisconsin decreased from 7.8 percent in October to 7.6 percent in November. Secretary of Workforce Development Robert Gassman noted that in November 2010 Wisconsin's unemployment rate dropped to its lowest level since January 2009.⁴ However, with thousands of Wisconsinites out of work, the state budget deficit at an all time high of \$3.3

¹ Jason Stein, "Wisconsin GOP prepares to hit the ground running on job creation." *The Wisconsin State Journal*, November 25, 2010, <http://www.jsonline.com/news/statepolitics/110730744.html>.

² John Schmid, "Wisconsin Continues to shed jobs. Economy shows mixed signals as 4,800 jobs are lost and unemployment rate dips." *The Milwaukee Journal Sentinel*, December 16, 2010, <http://www.jsonline.com/business/112014099.html>

³ John Schmid, "Wisconsin Continues to shed jobs. Economy shows mixed signals as 4,800 jobs are lost and unemployment rate dips." *The Milwaukee Journal Sentinel*, December 16, 2010, <http://www.jsonline.com/business/112014099.html>

⁴ Robert Gassman, "November Unemployment, Job Numbers Announced." The Wisconsin Department of Workforce Development, *Press Release*, December 17, 2010, http://dwd.wisconsin.gov/dwd/newsreleases/2010/unemployment/101216_november_state_rate.pdf

billion⁵ and expectations for it to skyrocket to \$5.4 billion in 2011⁶, the Wisconsin economy remains in a precarious position.

Secretary Gassman, Governor Doyle and liberal Democrats in the state legislature contend that the .2 percent decline in the state's unemployment rate indicates that Wisconsin is on the verge of economic recovery. Gassner, Doyle and liberals in the state legislature fail to mention, however, that Wisconsin lost 5,200 nonfarm jobs in the month of November and remains 150,000 jobs shy of its pre-recession (2006) totals.⁷ Of the 5,200 jobs lost in the month of November, 4,800 were in the private-sector,⁸ and 400 were government jobs.⁹

What is more, in the last twelve months, Wisconsin managed to create just 24,400 new private-sector jobs.¹⁰ This makes governor-elect Scott Walker's task of creating 250,000 new jobs by November 2015 more herculean than initially anticipated. Dr. Abdur Chowdhury, a professor of economics at Marquette University, stated that at the current rate of growth (24,400 new jobs in twelve months), governor-elect Walker and the Wisconsin economy would have to create nearly 60,000 new jobs per year if it intends to achieve the goal of 250,000 new jobs by November 2015.¹¹ The only encouraging news to come out of the report is that 2,600 new manufacturing jobs were created in November 2010.¹²

Obvious Question: How can the unemployment rate decrease but the total number of jobs increase? John Schmid, a staff writer for the *Milwaukee Journal Sentinel*, in describing the methods used by the Office of Workforce Development to calculate the aforementioned statistics, wrote, "The government calculates job-creation data and the unemployment rate from

⁵ Jason Stein, "Wisconsin GOP prepares to hit the ground running on job creation." *The Wisconsin State Journal*, November 25, 2010, <http://www.jsonline.com/news/statepolitics/110730744.html>.

⁶ John Schmid, "Wisconsin Continues to shed jobs. Economy shows mixed signals as 4,800 jobs are lost and unemployment rate dips." *The Milwaukee Journal Sentinel*, December 16, 2010, <http://www.jsonline.com/business/112014099.html>

⁷ John Schmid, "Wisconsin Continues to shed jobs. Economy shows mixed signals as 4,800 jobs are lost and unemployment rate dips." *The Milwaukee Journal Sentinel*, December 16, 2010, <http://www.jsonline.com/business/112014099.html>

⁸ John Schmid, "Wisconsin Continues to shed jobs. Economy shows mixed signals as 4,800 jobs are lost and unemployment rate dips." *The Milwaukee Journal Sentinel*, December 16, 2010, <http://www.jsonline.com/business/112014099.html>

⁹ WISN News, "State's Unemployment Rate Drops, National Numbers Worsen." *Press Release*, December 16, 2010, http://www.wisn.com/money/26163395/detail.html?treets=mil&tml=mil_7am&ts=T&tmi=mil_7am_1_0800011217_2010

¹⁰ John Schmid, "Wisconsin Continues to shed jobs. Economy shows mixed signals as 4,800 jobs are lost and unemployment rate dips." *The Milwaukee Journal Sentinel*, December 16, 2010, <http://www.jsonline.com/business/112014099.html>

¹¹ John Schmid, "Wisconsin Continues to shed jobs. Economy shows mixed signals as 4,800 jobs are lost and unemployment rate dips." *The Milwaukee Journal Sentinel*, December 16, 2010, <http://www.jsonline.com/business/112014099.html>. Note: see pages 1-2 for this information.

¹² WISN News, "State's Unemployment Rate Drops, National Numbers Worsen." *Press Release*, December 16, 2010, http://www.wisn.com/money/26163395/detail.html?treets=mil&tml=mil_7am&ts=T&tmi=mil_7am_1_0800011217_2010

two separate monthly surveys. The two have contradicted each other frequently throughout the recovery, sending mixed signals and suggesting that the labor market is stagnating without clear direction. Not until the numbers move in tandem will economists be able to discern a clear direction.”¹³

Thus the new job report released by the Wisconsin Office of Workforce Development ends up telling us very little about the vigor of the Wisconsin economy. With thousands of Wisconsinites out of work, the state budget deficit at an all time high of \$3.3 billion¹⁴ and expectations for it to skyrocket to \$5.4 billion in 2011¹⁵, the Wisconsin economy remains in a precarious position.

In order to restore the Wisconsin economy, lawmakers from both parties should make cutting taxes for small businesses, reducing the corporate/business tax rate, investing more money in business research and development at state universities, and creating a climate of business friendliness the foremost priorities in the upcoming legislative session. Rather than getting bogged down in the specifics of the state’s economic recession, the remainder of this forecast intends to offer viable solutions for creating jobs, and restoring economic growth, in the Badger State.

Step 1: Cutting taxes for small businesses.

Economists and politicians from both sides of the political spectrum are in concurrence that small businesses are a vital part of the state economy. In an attempt to create small business jobs and restore Wisconsin’s economic prosperity, governor-elect Scott Walker has pledged to make tax cuts for small businesses one of his chief priorities in the upcoming legislative session.

Late last month, governor-elect Walker announced that he will encourage the state legislature to enact a state income tax reduction of 1 percentage point for businesses with fifty or fewer employees. The Wisconsin Department of Revenue finds that there are 321,300 businesses in the state-owned by sole proprietors category and another 69,400 S corporations comprised of 100 or fewer shareholders.¹⁶ **These tax cuts will allow small businesses to expand their labor force, provide Wisconsin residents with greater goods and services, and most importantly, increase the state’s tax base.**

¹³ John Schmid, “Wisconsin Continues to shed jobs. Economy shows mixed signals as 4,800 jobs are lost and unemployment rate dips.” *The Milwaukee Journal Sentinel*, December 16, 2010, <http://www.jsonline.com/business/112014099.html>

¹⁴ Jason Stein, “Wisconsin GOP prepares to hit the ground running on job creation.” *The Wisconsin State Journal*, November 25, 2010, <http://www.jsonline.com/news/statepolitics/110730744.html>.

¹⁵ John Schmid, “Wisconsin Continues to shed jobs. Economy shows mixed signals as 4,800 jobs are lost and unemployment rate dips.” *The Milwaukee Journal Sentinel*, December 16, 2010, <http://www.jsonline.com/business/112014099.html>

¹⁶ Jason Stein, “Wisconsin GOP prepares to hit the ground running on job creation.” *The Wisconsin State Journal*, November 25, 2010, <http://www.jsonline.com/news/statepolitics/110730744.html>.

Governor-elect Walker, in describing the intricacies of the tax cut, and its impact on the Wisconsin business climate, wrote, “I will call for a tax cut of as much as 20 percent off the small businesses that provide most of the jobs in Wisconsin. That is money that can be used to hire more workers at small businesses here in Wisconsin.”¹⁷

Dr. Abdur Chowdhury, a professor of economics at Marquette University, is optimistic that a reduction in business taxes will lead to an increase in statewide employment. In an interview with Jason Stein of the *Wisconsin State Journal*, Professor Chowdhury said, “Reducing the tax burden on small businesses would be a good way to encourage them to expand their business and hire more.”¹⁸ **The first step to restoring economic prosperity in Wisconsin is to provide job creators with tax relief.** A one point reduction in income taxes for small businesses, proprietorships and S corporations, will create jobs, a climate of business friendliness and foster greater economic productivity.

Step 2: Reducing the state’s corporate and business tax rate.

An exorbitantly high corporate/business tax rate is partially to blame for Wisconsin’s struggling economy. If Wisconsin intends to once again become an engine of economic growth it should work assiduously to attract a greater number of *Fortune 500* companies to the state. Scott Cohn, a Senior Correspondent for *CNBC News*, found that Texas, the nation’s number one state for business in 2010, is home to 64 *Fortune 500* companies—more than any other state in the union.¹⁹

Conversely, *Fortune Magazine* found that in 2010 Wisconsin was home to a paltry ten *Fortune 500* companies.²⁰ Wisconsin’s exorbitantly high corporate/business tax rate has led several corporations to leave or threaten to leave the Badger State, in recent years. The U.S. Federation of Tax Administrators found that as of January 2010, the Wisconsin corporate/business tax rate has stood at a markedly high 7.9 percent.²¹

In order to restore economic growth in Wisconsin, PAI contends that the Republican controlled state legislature should do away with the business/corporation tax and, instead, follow in the footsteps of Texas, the nation’s top ranked economy in 2010, and impose a franchise tax. The United States Federation of Tax Administrators, in discussing the specifics of the Texas

¹⁷ Scott Walker, “Emergency Special Session on jobs.” *Scott Walker for Wisconsin*, November 1, 2010, <http://www.scottwalker.org/node/1623>

¹⁸ Jason Stein, “Wisconsin GOP prepares to hit the ground running on job creation.” *The Wisconsin State Journal*, November 25, 2010, <http://www.jsonline.com/news/statepolitics/110730744.html>.

¹⁹ Scott Cohn, “CNBC’s Top States For Business 2010—And the Winner is Texas.” *CNBC News*, July 13, 2010, http://www.cnb.com/id/37642856/CNBC_s_Top_States_For_Business_2010_And_The_Winner_Is_Texas

²⁰ Fortune, “States, Wisconsin, 2010.” *Fortune Magazine*, May 3, 2010, <http://money.cnn.com/magazines/fortune/fortune500/2010/states/WI.html>

²¹ United States Federation of Tax Administrators, *Range of State Corporate Income Tax Rates*, March 2010, http://www.taxadmin.org/fta/rate/corp_inc.pdf

franchise tax, wrote, “Texas imposes a Franchise Tax, otherwise known as a margin tax, imposed on entities with more than \$1 million total revenues at a rate of 1 percent, or 0.5 percent for entities primarily engaged in retail or wholesale trade, on lesser of 70 percent of total revenues or 100 percent of gross receipts after deductions for compensation or cost of goods sold.”²²

A two-year freeze in the Wisconsin business/corporation, coupled with the implementation of a franchise or consumption tax has would generate copious amounts of revenue, entice more *Fortune 500* companies to set up camp in the Badger State and provide businesses with the capital necessary to create hundreds of new jobs. If Wisconsin intends to create jobs, attract businesses, and become an engine of economic growth, it should eradicate its corporate/business tax, and instead, install a franchise or consumption tax. Doing so would drastically improve the state economy, and as aforementioned, exponentially increase state revenue.

Step 3: Greater investment in research and development at colleges and universities.

To spur economic growth and foster a climate of “business friendliness,” the Wisconsin State Legislature should markedly increase expenditures for research and development at colleges and universities. In addition, Wisconsin public schools should expand their business education curriculums by providing students with access to organizations such as Junior Achievement, Students in Free Enterprise, and the National Institute for Economic and Financial Literacy.

The Wisconsin Economic Summit, in its enthralling November 2010 report, entitled *Be Bold: The Wisconsin Prosperity Strategy*, found that research and development at Wisconsin universities has created new jobs and generated large amounts of new revenue. In discussing the impact that university research and development has had on the state economy, the authors of the report wrote, “Led by the University of Wisconsin-Madison, academic R&D is a \$1.2 billion economic activity in the state, translating into more than 38,000 new jobs. UW-Madison is perennially in the top three universities in the nation for R&D at more than \$900 million, while the M7 region, with the Medical College of Wisconsin, UW-Milwaukee, the Blood Center of Wisconsin and Marquette University, collectively pull in more than \$250 million.”²³

The authors of the report, who happen to be some of the most successful and highly respected business leaders in the state, outline a myriad of strategies for restoring economic prosperity and fostering a culture of business friendliness in the Badger State. **Some of the recommendations made by the authors of the report include: increased funding for research and development on UW campuses; the creation of a strong academic research**

²² United States Federation of Tax Administrators, *Range of State Corporate Income Tax Rates*, March 2010, http://www.taxadmin.org/fta/rate/corp_inc.pdf. Note: See page 2, footnote Z, for the exact quote.

²³ The Wisconsin Economic Summit, *Be Bold: The Wisconsin Prosperity Strategy*, November 2010, p.5. The report can be found at: http://www.wiroundtable.org/summit/Resources/BE_BOLD_FINAL_Dec1_2010.pdf

and development base in Madison; an increase in entrepreneurial literacy in K-12 schools through programs such as Junior Achievement and the Wisconsin-based National Institute of Economic and Financial literacy; and, an increased emphasis on employment-based learning on all college, university, and technical college campuses.²⁴

The implementation of the aforementioned recommendations would increase state revenue, boost enrollment at Wisconsin colleges and universities, and provide K-12 students with the information necessary to be informed consumers. Governor-elect Walker and Republicans in the state legislature should make the abovementioned recommendations a foremost priority in the next legislative session.

Step 4: Fostering a climate of “business friendliness in Wisconsin.

Wisconsin Republican leaders should work indefatigably in the upcoming legislative session to foster a climate of business friendliness in Wisconsin. As aforesaid, **Wisconsin is home to just ten *Fortune* 500 companies, enforces an exorbitantly high business tax and is one of the nation’s least-friendly business states. *Forbes Magazine*, in its annual ranking of the best states for business, found that Wisconsin ranks forty-third in the nation.** Only Vermont, Hawaii, Maine, Michigan, Mississippi, Louisiana, and Rhode Island rank below Wisconsin in business friendliness.²⁵

Conversely, *Fortune Magazine* in a chart entitled *America’s Top States For Business 2010* found that in 2010 Wisconsin ranked twenty-seventh in the nation in business friendliness.²⁶ Among Midwestern states, only Illinois, Ohio, and Michigan were less business friendly.²⁷ What was more, *Fortune* found that Wisconsin’s economy is ranked thirty-first in the nation.²⁸ Wisconsin’s low rating is precipitated by three factors: an exorbitantly high corporate/business tax rate, combined reporting and a high property tax burden.

Combined reporting is demonstrably bad for Wisconsin corporations because it stifles economic productivity. Rather than paying taxes on just their business, corporations are forced to pay taxes on subsidiary companies or divisions within their corporation. *BizTimes*, a Milwaukee-based business periodical, found that in the first quarter of 2009, Harley Davidson took a \$22.5 million dollar charge as a result of new combined reporting laws.²⁹ Debra Sadow

²⁴ The Wisconsin Economic Summit, *Be Bold: The Wisconsin Prosperity Strategy*, November 2010, pp. 8-12. http://www.wiroundtable.org/summit/Resources/BE_BOLD_FINAL_Dec1_2010.pdf

²⁵ Kurt Bladenhausen, “Table: The Best States for Businesses and Career,” *Forbes*, November 13, 2010, <http://www.forbes.com/2010/10/13/best-states-for-business-business-beltway-best-states-table.html>

²⁶ *Fortune*, *America’s Top States For Business 2010*, *Fortune Magazine*, <http://www.cnn.com/id/37516043/>

²⁷ *Fortune*, *Business Friendliness 2010*, *Fortune Magazine*, <http://www.cnn.com/id/37516038/>

²⁸ *Fortune*, *America’s Top States For Business 2010*, *Fortune Magazine*, <http://www.cnn.com/id/37516043/>

²⁹ Andrew Weiland, “The Hog Tax: Should Combined Reporting be Repealed?” *Biz Times*, May 14, 2010, <http://www.biztimes.com/news/2010/5/14/the-hog-tax>

Koenig and James Phillips in their beguiling article entitled “Wisconsin Adopts Combined Reporting and Other Tax Changes”, wrote, “In general, combined reporting means that each member of an affiliated or ‘combined’ group of corporations engaged in a unitary business reports on a combined report the unitary business allocable income allocable to Wisconsin.”³⁰

Governor-elect Walker and Republican legislative leaders have stated they would consider reforming or eliminating combined reporting in the upcoming legislative session. In fact, State Senator-elect Leah Vukmir (R-Wauwatosa), called for a special session of the legislature to repeal combined reporting.³¹ With Republicans firmly in control of both houses of the legislature and the governor’s mansion, it appears certain that combined reporting will be repealed in the 2011-2013 legislative session.

In addition to an exorbitant corporate tax rate and combined reporting, Wisconsin business growth has been stifled by an excessive property tax burden. Nationally renowned economists Dr. Arthur Laffer, Stephen Moore, and Jonathan Moore, in their book *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*, found that as of January 2010 Wisconsin ranked forty-first in the nation in property tax burden.³² Wisconsinites are required to pay \$41.33 in property for every \$1,000 earned in income.³³

The state’s high property tax value has been demonstrably bad for business development, and economic growth. In order to create a more business friendly state, PAI encourages the state legislature to replace the business tax with a franchise/consumption tax, eradicate combined reporting for Wisconsin corporations, and most importantly, drastically diminish the property tax burden.

Conclusion:

The release of the November unemployment numbers by the Department of Workforce Development illustrates that the Wisconsin economy remains in a volatile position. While unemployment dropped to its lowest levels since January 2009, 5,200 nonfarm jobs were shed last month. Economists predict that the Wisconsin economic situation will continue to deteriorate in the months ahead, as several leading manufactures have stated that they intend to cut back their labor force.

³⁰ Debra Sadow Koenig, and James Phillips, “Wisconsin Adopts Combined Reporting and Other Tax Changes,” *Godfrey & Kahn, Attorneys At Law, News, Publications & Events*, February 25, 2009, http://www.gklaw.com/news.cfm?action=pub_detail&publication_id=809

³¹ Andrew Weiland, “The Hog Tax: Should Combined Reporting be Repealed?” *Biz Times*, May 14, 2010, <http://www.biztimes.com/news/2010/5/14/the-hog-tax>

³² Dr. Arthur B. Laffer, Stephen Moore, and Jonathan Williams, *Rich State, Poor State: ALEC-Laffer State Economic Competitiveness Index* 3rd ed. (Washington, D.C: The American Legislative Exchange Council, 2010), 120.

³³ Laffer, Moore, and Williams, 120.

John Schmid, of the *Milwaukee Journal Sentinel*, noted that the closing of Everbrite, LLC, and NewPage Paper Corporation later this year will cost 400 Wisconsinites their jobs (36 at Everbrite and 366 at NewPage).³⁴

The implementation of the strategies outlined in this document will restore Wisconsin to a sound fiscal footing, create jobs, and foster a climate of business friendliness in the Badger State. Wisconsin's fate hinges on the enactment of these critical legislative initiatives. If Wisconsin intends to restore economic prosperity it is paramount that the recommendations outlined in this forecast are enacted into law at the onset of the upcoming legislative session.

³⁴ John Schmid, "Wisconsin Continues to shed jobs. Economy shows mixed signals as 4,800 jobs are lost and unemployment rate dips." *The Milwaukee Journal Sentinel*, December 16, 2010, <http://www.jsonline.com/business/112014099.html>