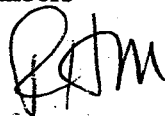




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December 14, 2001

MEMO TO: Common Council Members
FROM: Robert H. Milbourne 
RE: GMC Economic Development Task Force Report

Attached please find the final report of the *Greater Milwaukee Committee's Economic Development Task Force Report*. The report was presented at the recent Economic Summit held in Milwaukee sponsored by the University of Wisconsin.

The GMC report contains many recommendations to grow the Wisconsin economy in the years ahead. We wanted you to have a copy for your information.

If you have any questions or comments, please do not hesitate to call (272-0588).

RHM:jb

Attachment

***Economic
Development Task
Force Report***

Introduction

The University of Wisconsin should be complimented for bringing together the first Economic Summit in 2000 and planning the second for 2001. It is certainly time for Wisconsin to look to its future and develop an overall economic strategy that can guide our state for years to come.

The last such effort was the Strategic Development Commission created after the national recession in the early 1980s. Many significant recommendations were developed at that time which have been implemented over the years. Wisconsin is better off for the effort and will be as a result of today's focus on our economic future.

After the first Economic Summit last year, there was a consensus that the business community and organized labor did not participate to the degree desirable. Many of the outstanding papers and reports considered by the Summit were prepared by university faculty and most of the discussion was lead by university and government officials.

While the Summit was a great success in many ways and formulated a series of initiatives that will be important to the future of our state, the role of the business community and labor need to be stronger components to the process. The planning team for Summit II have recognized this need and

have given the private sector an important role. The Greater Milwaukee Committee appreciates the opportunity to share ideas and recommendations at the Summit and to be part of the process.

To prepare for Summit II, the Greater Milwaukee Committee, a civic group of business, labor and education leaders, decided to form an Economic Development Task Force last spring. James Keyes, Chairman/CEO of Johnson Controls served as task force chairman and the other members included: Willard Davidson, Marine Corporation (retired); George Franco, National Financial Corporation; Michael Grebe, Foley & Lardner; Thomas Hefty, Cobalt Corporation; Jack Lund, YMCA of Metropolitan Milwaukee; David Meissner, Public Policy Forum; Charles Mulcahy, Whyte Hirschboeck Dudek; Phillip Neuenfeldt, Wisconsin State AFL-CIO; William Petasnick, Froedtert Health System; Paul Purcell, Robert W. Baird; Agustin Ramirez, HUSCO International; Sister Joel Read, Alverno College; Paul Roller, Miller Brands; Art Smith, Keystone Travel; Jay Williams, Firststar Wisconsin; Charles Wright, the Fall River Group; and James Forbes, Badger Meter.

Staff to the task force was headed by Robert Milbourne, President of the Greater Milwaukee Committee. We appreciate the important contributions provided by the Federal Reserve Bank of Chicago (William

Testa, Rick Mattoon, and Thomas Klier); Professor Sammis White of the University of Wisconsin-Milwaukee and Professors Don Nichols and Joel Rogers of the University of Wisconsin-Madison.

The task force worked for several months to develop recommendations that could be presented at the Summit. Our goal was to develop specific initiatives that could have long term impact in building Wisconsin's economic future.

Wisconsin in the 1990s

The decade of the 1990s brought unparalleled economic prosperity to our entire country. Virtually every region in the U.S. experienced economic growth, business formation, lower unemployment and rising personal income. Wisconsin enjoyed some of the economic growth like everyone else. However, the decade of the 1990s benefited some areas far more than others.

There is an old saying that "a rising tide lifts all boats". The 1990s certainly represented a rising economic tide that did, in fact, lift the economy of every state in the country and virtually every city as well. But not every state nor every city benefited from the rising tide as much as others. On a relative basis, some parts of the country did much better than other regions. Unfortunately, Wisconsin was not one of the winners. If you look at overall

employment and income statistics, it is clear that Wisconsin lost ground to other key competitive states. The economic pie got bigger, but our relative piece of the pie got smaller. This is the problem that needs to be addressed in planning our next decade of economic development.

Wisconsin's Economy Today

One of the compelling reasons for this Summit is that all is not well with the Wisconsin economy. Employment measures have certainly grown in the last decade, particularly in the first half of the period. Wisconsin has many more jobs today than it had in 1990. But the rate of growth has not been as fast as in other competitive states. And more importantly, per capita incomes have not been rising as rapidly as they have been elsewhere. When we put today's economy in a longer-term perspective, it gives even greater reason for pause.

One measure of Wisconsin's status is per capita personal income. In 1969, Wisconsin was at 101% of the U.S. average. But by 1999, our state was 96% of the U.S. average. By contrast, Minnesota was 108% and Illinois 109%. The Minnesota average per capita income increased 5.4% compared to Wisconsin's 3.5% during the 1990s.

In a more recent period, first quarter 2000 versus first quarter 2001, personal income grew 8.1% in Minnesota, 6.1% in the U.S., and only 5.3% in Wisconsin. As a state, we slipped to 95% of the U.S. average.

Personal income is not the best measure of the economy. It includes both earned and unearned income. It does not give a clear picture of the returns to work. For that we need to look at such measures as the annual average pay per worker. On that measure, it is clear there is a problem in Wisconsin.

If we look at the supposed best years of the recent economic period, 1997 to 2000, there is some discouraging news. Wisconsin workers started the period earning less than the U.S. average and finished 2000 even further behind. The same pattern prevails for Wisconsin workers relative to neighboring states. In 2000, the average Wisconsin worker earned \$30,697. The average U.S. worker earned \$35,296, or 15% more. The Wisconsin worker earned only \$27,337 in 1997 compared to the \$30,353 earned by the average U.S. worker. The growth rate in earnings was also lower for Wisconsin: 12% versus 16% for the U.S. during the four-year period (see Table I).

Table I

<u>Location</u>	<u>1997</u> <u>Average Earnings</u>	<u>2000</u> <u>Average Earnings</u>	<u>% Change</u>
United States	\$30,353	\$35,296	16%
Wisconsin	\$27,337	\$30,697	12%
Illinois	\$33,024	\$38,044	15%
Minnesota	\$30,231	\$35,418	17%

Source: Bureau of Labor Statistics

If we look at the best year of growth since 1982—the year 2000—Wisconsin's growth rate in earnings put it 39th among the states. Wisconsin's 3.7% growth rate put it above Iowa (3.6%), Alabama (3.4%), and Mississippi (3.3%). But it was well below Illinois (4.8%), Minnesota (5.8%), the U.S. average (5.9%), not to mention such places as Arizona (6.8%), California (9.6%) and Massachusetts (9.8%). It is no wonder that Wisconsin workers feel that they are falling behind—they clearly are.

If one were to examine the median real hourly wage, it is even more clear that Wisconsin workers are not making the headway that others are. In 1979 the median real (1999 dollars) wage for full-time workers in Wisconsin was \$13.87 an hour, well above the U.S. average of \$13.12. By 1999 the Wisconsin median fell below the U.S: \$12.56 compared to \$12.68. After 20 years it is clear that the lower half of the work force was losing ground in

Wisconsin relative to both inflation and the rest of the U.S. This has led to a 19% increase in the share of Wisconsin workers earning poverty wages between 1979 and 1999.

Employment has been growing in Wisconsin, but it has been thwarted by decreasing relative wage rates. In 1978 Wisconsin's wage per job was 95.5% of the U.S. average. By 1999 it had fallen to 88.4%. More must be done if Wisconsinites are to prosper.

The longer-term outlook is more discouraging. Wisconsin's Department of Revenue economic forecast to 2024 puts Wisconsin's annual per capita income growth at 1.8% compared to the nation's 2.3%. If true, that puts Wisconsin's average income in 2024 in a league with Alabama, Arkansas, Mississippi and other low-end states. That trend is not a good one to contemplate.

Milwaukee

Milwaukee grew in the 1990s in terms of both population and employment. But that growth did not match that of the state nor many other metropolitan areas of the U.S. In the 1991-1999 period the Milwaukee metro area grew 15% in terms of the number of jobs. That is above the 13% for the nation for the same period, but below the state's 21% growth rate. It

was also well below the Green Bay/Brown County growth rate of 34%, the Fox Cities' growth rate of 29% and even Kenosha's growth rate of 27%.

What the 15% growth masks is the fact that of the 105,000 jobs added in the metropolitan economy, only 4,000 were in the City of Milwaukee. By contrast, the vast majority of job growth in Brown County was in the city of Green Bay (up 29,000 jobs).

When average earnings per worker are examined, the Milwaukee situation of slower growth is further intensified. In the year 2000, the best year in the last two decades for pay increases, the average worker in Milwaukee metro earned 3.3% more than in 1999. This compares rather poorly with a U.S. metropolitan area average of a 6.0% gain for the year. Milwaukee's gain does beat that of Green Bay (2.9%), but it falls short of Madison (5.5%), Chicago (5.1%), Minneapolis-St. Paul (6.2%) and places like San Francisco (18.3%) and San Jose (24.5%).

The most important comparison is with the U.S. as a whole and Milwaukee workers gained at a rate of 55% of the nation's workers. That is not healthy and is cause for considerable concern. Milwaukee's economy has been creating some jobs, but the economy is not making much headway in terms of income. That will, in turn, limit our economic growth, unless the situation changes.

What is likely to also hurt the Milwaukee area in the future is that the 1990-2000 population growth rate in Milwaukee was only 4.8%. In eleven other midwestern cities, the average was 7.7% for the decade. This means that the number of future entrants to the labor force will be smaller in Milwaukee. By contrast, Chicago grew 11.6% and the Twin Cities grew 16.9% over the decade.

Together, lower employment growth and markedly slower growth in average earnings per worker indicate that both Milwaukee and Wisconsin have a troubled economic future unless some of the fundamentals of the economy are changed. So, what can we do to improve our economic prospects?

While many of these trends are caused by factors beyond our control, the Greater Milwaukee Committee believes there are actions we can take in Wisconsin to improve our economic prospects. Here are some ideas.

Major Recommendations

The GMC task force considered many potential ideas—some large and some small. We concluded that our most significant contribution to Economic Summit II and to the State of Wisconsin would be to concentrate on a few major strategies rather than a series of minor ones. There are literally hundreds of things a state or city could do to impact its economic

future. GMC decided to highlight a few major proposals that could have significant impact over a period of time. None of the recommendations are easy. All of them will take time to implement, but in the end they are most likely to change the direction of our economy.

I. Chicago Connection

For good or bad, Wisconsin is located in the shadow of a major metropolitan market called "Chicago". The last decade was kind to the economy of Chicago, with results that are in sharp contrast to our own.

Table II

	Employment Change 1989-99 (%)	Personal Income Change 1989-99 (%)	Population Change 1989-99 (%)
Milwaukee	15.2%	64.7%	4.8%
Rest of Wisconsin	26.6%	74.3%	11.7%
Chicago	15.7%	74.4%	11.6%
Rest of Illinois	14.6%	54.1%	3.2%

As an economic strategy, we can either view Chicago as a competitor or an ally. This is a major choice that must be made and will have strategic importance depending on the direction we decide to take. In the view of the GMC, Chicago should not be our competitor. We need to find ways to take advantage of the possibilities offered by a stronger and growing market just south of the Wisconsin border.

If we were to view Chicago as a competitor, it is unlikely we could win on a head to head basis. The size and gravitational pull of Chicago would surely overwhelm the smaller region of Milwaukee. After all, Chicago is a market of 8 million people—five times the size of our region. The decade of the 1990s clearly showed that Chicago is gaining economic momentum and will continue to cast a large and ever-increasing shadow over southeastern Wisconsin. It is time for us to develop strategies that complement what Chicago has to offer so that we benefit from growth occurring in the market.

Ultimately, we need to create a **Chicago/Milwaukee/Madison Triangle** for economic development. This could be the Midwest counterpart to the Research Triangle of North Carolina. It should be supported by first-rate air transportation, high-speed rail and a complementary working relationship between the cities. There will be plenty of opportunity to work cooperatively with Chicago to build our triangle. If we don't, Milwaukee and Wisconsin have the most to lose.

This meshing of orbits means that greater Milwaukee can no longer ignore its position and relationship with Chicago. To do so will mean risking lost opportunities and magnifying competitive losses where they will emerge. Wealth and income will be created as these two major metropolitan

regions grow together. On the whole, both will win. However, it behooves Milwaukee to understand and consider its position—where its strengths can produce the greatest gains—and to enact policies to enhance those gains. For example, both central cities are the domicile of specialized world-class niches in business services. The markets of these industry clusters will be enhanced by faster, more efficient communication and transport linkages. Milwaukee's financial services industry may come to prosper as its market broadens and as it has a larger labor pool to draw from; and its airport may grow for business/leisure travel from Chicago's north suburbs. To the contrary, Chicago may come to exert greater dominance in a (now-larger) market for international law or specialized management consulting and the like.

The first step should be **high-speed rail** between the cities that will bring them closer together. There has been proposed a Midwest Rail Initiative to bring high-speed rail to our region. Chicago, as the hub, would be the center of a system that would extend to Detroit, Indianapolis, St. Louis, Milwaukee and Minneapolis. Improving the travel time to Chicago (the objective should be one hour) would bring our cities closer together and permit the complementary relationship we will need in the future.

It would cost a total of \$626 million to build a four-phase high-speed rail project over the next decade serving the State of Wisconsin. The ultimate result would be 110 mph frequent trains from Chicago to Milwaukee and on to Madison and Minneapolis. There would also be a line between Milwaukee and Green Bay included in the project. Most of the funding would come from the federal government with some investment from the State. The downtown Amtrak station will need to be totally rebuilt and combined with bus depots that now serve Wisconsin. A station at Mitchell International Airport would also be constructed.

The development of a strong **regional airport** in Milwaukee is equally important to achieving economic development in Wisconsin. Our community is blessed to have a quality airline like Midwest Express and we need to capitalize on the opportunity it brings to Milwaukee. A strong and expanded airport, free of myopic local control, will provide an engine for economic growth.

Wisconsin would also benefit from a major marketing effort that emphasizes our inter-relationship with Chicago. There are great advantages to our state that derive from our proximity to Chicago and it is time to think that way and not the opposite.

The connection between Milwaukee and Madison also needs attention by state policy makers. At last year's Summit, a recommendation was made to expand the UW-Madison Research Park with a new location in the Milwaukee metro area. The result was to create additional space in the Madison area. We need a stronger connection between Madison and Milwaukee and it makes sense to bring together the resources of UW-Madison and UW-Milwaukee to jointly propose a research center and to collaborate on its implementation.

In addition, the State should be encouraged to bring a larger share of government jobs to the Milwaukee area. There are agencies of the State that may be better located in the Milwaukee area (i.e. Department of Workforce Development, Commerce or Corrections). Before the State builds another office building, it should consider a Milwaukee location.

Regional Solutions

The next decade in Wisconsin could be the time for regional action on a wide variety of important problems that deserve a regional solution. For far too long Wisconsin has avoided movement toward regional solutions to regional problems. This is particularly true in the Milwaukee metropolitan area. Everyone appears to agree that we have regional problems whether

they are in transportation, economic and workforce development, or other public services.

The private sector currently shakes its head at our inability to find regional solutions as part of an economic development agenda. No employer believes workforce development strategies should be anything but regional in scope. We need a regional transportation system that deals with highways, mass transit and the airport.

The recent Kettl Commission was intended to lead us toward regional approaches to our economic problems. Unfortunately, the state has not implemented any of the policy recommendations that came from the Commission. In particular, Wisconsin should create an incentive for local government collaboration, cooperation and joint service delivery. The Kettl Commission recommended this approach, but failed to offer a specific proposal for the state to consider. It is time to develop that proposal, legislate it and implement it at the local level. The shared revenue system of Wisconsin should reward regional cooperation in every way possible.

One of the problems facing Wisconsin is how it can best increase the efficiency of the delivery of public services. The state prides itself on a high level of services, but that comes at a cost—higher levels of taxation. One alternative that was recommended by the Kettl Commission is the provision

of services through cooperative agreements among local governments. Prime examples of what can be done cooperatively are the North Shore Fire Department that was created in 1995 to serve seven communities north of Milwaukee, the contract for Milwaukee to provide fire services for the City of West Milwaukee, and the Milwaukee County Animal Control Unit that serves all 19 municipalities in the county. The State of Wisconsin should promote this cooperation through a series of carrots and sticks that will induce municipalities to work with their neighbors.

We also need a regional Workforce Development system to serve employers. The labor market does not respect narrow jurisdictional boundaries—say between Waukesha and Milwaukee counties. Employers draw on a regional labor market that crosses them. Our systems of workforce development and job placement and advancement should reflect this fact; and respond to some of the new problems and needs in the labor market. At present they do not. We lack in Milwaukee, and around the State of Wisconsin, workforce development systems that offer workers clarity on and support in achieving the skill and other requirements of jobs, and employers a workforce that has or is fully prepared to meet them. We suffer from all sorts of skills mismatches between the existing labor force and the jobs that are available, while failing to offer clear roadmaps—to

workers and employers both—on how to build careers that offer improved skills and rewards over an earnings lifetime. And our efforts in workforce development, already scattered across countless separate programs, are themselves not coordinated with what we're doing in changing the "big picture" described by economic development.

It is long past time that we tried to devise a workforce development for the future. In the Milwaukee region, we need to combine the functions of workforce and economic development. We need clarity on skills needs, adjustment of training and educational systems to provide opportunities for ongoing skill enhancement and much greater employment involvement in designing both systems. Most workforce development still operates on a "supply" model—trying to improve the qualifications of workers, without adequate understanding of what employers really want. Training and other worker assistance that proceeds without close attention to employer demand, however, does little for anyone. It can waste public resources on training that is unnecessary, it doesn't guarantee employment at the back end, and it doesn't give employers what they really need, which is a system that can support them in meeting changing competitive needs. We should shift to a "demand" driven model, rooted in employers and member unions, like the Milwaukee Jobs Initiative and Wisconsin Regional Partnership have begun

to develop right here in Milwaukee. That will require a top to bottom reform of how we do state business in this area, but that time is long overdue.

III. Wisconsin and the New Economy

Wisconsin has not benefited from high technology opportunities to the degree it should. We need a strategic answer to the question of where Wisconsin and Milwaukee fit in the new economy and the competitive world of high technology. It has become clear that the UW System and the Medical College of Wisconsin are at the center of biotechnology advancement and the economic impact it will create. This is clearly our most competitive advantage in the new economy. Madison and Milwaukee need to develop a closer connection that will permit the research capacity of the UW System, the Medical College and other institutions of higher education to maximize the movement of research from the laboratory to the marketplace.

Stem cell research is already moving in this direction. Will Wisconsin take full advantage of its competitive position and gain the economic benefits it can provide?

At a recent conference of the Wisconsin Biotechnology Association, Tommy Thompson, Secretary of the U.S. Department of Health and Human Services, highlighted the opportunity Wisconsin enjoys in stem cell research.

"We are out in front. Let's not lose that little bit of a head start. Biotech is the industry that is going to have the fastest and most promising growth", Thompson stated. Wisconsin needs to exploit the opportunity and heed Thompson's advice.

Similar opportunities exist in Milwaukee with higher education institutions that have strong research facilities and faculty producing ideas that can lead to economic development. The formation of TechStar and its early support from the State of Wisconsin will pay huge dividends in the future.

TechStar is a collaboration between Marquette University, Medical College of Wisconsin, Milwaukee School of Engineering, University of Wisconsin-Milwaukee and University of Wisconsin-Parkside. It is committed to the promotion of a cooperative environment of entrepreneurship and technology transfer, collaboration with business and industry, and commercialization of new high-technology businesses in Southeastern Wisconsin.

TechStar will become a major force in bringing together entrepreneurial professionals, angel investors, venture capitalists, business and industry leaders focused on improving the employment opportunities and economic growth of the region.

As part of its effort, TechStar will establish an early-stage fund to facilitate the creation of feasible new businesses. This fund will assist those companies that have the highest promise for receiving additional outside funding and making a significant contribution to Wisconsin's economy.

There are efforts to connect Milwaukee to the new economy and some of them are quite promising. Several business leaders are working on a host of initiatives that will lead to good results. One example is the financial literacy project aimed at tying underserved consumers to the banking system. Another example is the new television program, "Leaders in the New Economy", which will be a weekly 30-minute show featuring the latest new economy stories in Wisconsin.

One of the largest and fastest growing industries in the U.S. is health care. Milwaukee has a specialization in this industry, particularly medical instruments. One way to exploit this opportunity is to physically pull together a number of the players by creating a true high tech research park with GE Medical Systems. This could be a big idea. Whether the research park is located next to GE Medical or in Milwaukee, it should be a focal point for the advancement of this cluster in Wisconsin. The key is creating a critical mass of researchers and problem solvers who can interact with one another, creating the type of synergy found in Silicon Valley. It could also

be another opportunity to secure federal funding for the development of the park as a national technology center.

Our state must make a stronger effort to redevelop brownfield sites (environmentally contaminated lands) in Milwaukee. We applaud recent steps by the DNR and other parties to take advantage of this vacant and currently unproductive land. The DNR has been more creative in its application of cleanup standards. It has made them less costly to meet. This must continue, if the lands in the City and inner suburbs are to be used productively. The Menomonee Valley is a prime example of under-utilized land that could be developed to generate jobs for the future.

IV. Wisconsin Industry Clusters

It is difficult to attend an economic development meeting anywhere in the country without talking about "clusters". This is the buzzword for focusing on industry sectors and key firms connecting across them, where the strongest competitive advantage may lie in any particular region. Wisconsin has its clusters like any other state in the country. We know what they are—from papermaking and printing to small engines, industrial controls, or the medical equipment and biotech mentioned earlier. Our clusters—in effect, our key areas of competitive strength—should be explicitly targeted and harnessed as the engines of future growth and

employment opportunity in the state. The role of policy should be to help them be their best—the most advanced in each of their selected areas.

At present Wisconsin lacks a general economic development strategy. We are suggesting one. Build a high road economy of high innovation, productivity growth, profits and also wages and build it through the older and emerging clusters of real industry that can move in that direction. What this means in terms of how the state does business should be straightforward enough and there are lots of examples to learn from other states, which are ahead of us going down this path. Using available means of industrial mapping, we should identify the structure and evolving membership of our key clusters. We should then go into the field to talk to Wisconsin firms in those clusters—large and small, older and new—about their current competitive needs. In virtually any such situation, there are typically real opportunities to add value to existing practice through better coordination or the addition of nonprofit-seeking resources best supplied through public means.

Those opportunities are there because clusters typically face problems—in training, marketing, research, or other areas—that require collective action beyond the capacity of any individual firm, even as the failure to solve those problems affects those individual firms' bottom line.

State policy should be about helping industry solve these sorts of collective action problems.

But, we cannot emphasize enough that the process, while supported by public actors, must be lead and finally disciplined by private ones. The public role is to generate a shared knowledge base of what the problems are, help convene industry discussion on how to solve them and then make appropriate investments needed to reach that solution. And this should be a more or less ongoing discussion between state policy and industry actors. Here, too, is an obvious role for higher education to play—in helping to provide some of the core research.

Coming out of such discussion would be myriad specific suggestions for improving the competitiveness of the different parts of Wisconsin industry. Already, however, at least one proposal seems sensible and clear enough.

Wisconsin is a world leader in manufacturing, with particular strength in the production of small engines. This is an area of enormous technical change right now. Who emerges as a leader in harnessing that change to competitive advantage and is able to get the right research, marketing and other infrastructure of support for innovation will capture enormous wealth.

Conversely, if Wisconsin squanders its present strengths in this area, the news is only bad for the state's economy.

So, as a target for a proposal for federal funding, we suggest that Wisconsin aim to establish an **Advanced Manufacturing R & D Center in Milwaukee**, complementary to existing efforts by the Manufacturing Extension Program and relevant engineering and other schools of research, to get more support, especially to small and mid-sized Wisconsin firms, to help industry define this region as the world leader in this area. This could build on past or existing efforts—for example, the Small Engine Technology Conference held every two years with industry figures from the U.S., Europe and Japan, and first held in Milwaukee, or the Small Engine Consortium currently operating here. In making this suggestion, we do not suggest the need to fundamentally reform such efforts, but only the need to bring them to ongoing scale, and add additional research and other state support.

One employment cluster historically strong in Wisconsin was the insurance industry. However, in recent decades that industry has been declining in our state, with the loss of thousands of jobs, several corporate headquarters including Wisconsin National, Rural Insurance, Northwestern National, Tower Insurance and Association Life. This is an alarming trend and even more troubling with the pending loss of the AAL headquarters to

the Twin Cities, Milwaukee Mutual's acquisition by a Chicago company, and the Wausau Insurance merger with Boston's Liberty Mutual.

The insurance industry is getting smaller in Wisconsin and will exacerbate our economic problems and employment losses, if something is not done. We call on the State to target this industry and take appropriate steps to reverse the trends.

V. Brain Drain

Perhaps the biggest concern in Wisconsin is the "Brain Drain" problem we are facing. Wisconsin is losing far more than its share of young educated people to other states. During the decade of the 1990s, Wisconsin lost a net 100,000 college students to other states for employment. Why are they leaving and what can we do to stop it?

There are two alternative ways to attack this problem. On the supply side, we can make the UW System and colleges more competitive, more attractive and more likely to increase their enrollments.

Or we can focus on the demand side where the problem actually lies. Growing the university will not solve the Brain Drain problem. Growing the economy and the demand of employers for more college-educated employees will.

The following table clearly shows Wisconsin lagging behind other states in our region and around the country. Table III compares Wisconsin with other states and the U.S. average. Only Indiana ranks below Wisconsin in the net retention of college educated young people.

Table III

Retention Rate of College Graduates

<i>Indiana</i>	<i>57.8%</i>
<i>Illinois</i>	<i>81.6%</i>
<i>Michigan</i>	<i>79.6%</i>
<i>Ohio</i>	<i>74.8%</i>
<i>Wisconsin</i>	<i>61.6%</i>
<i>Kentucky</i>	<i>80.2%</i>
<i>North Carolina</i>	<i>69.1%</i>
<i>U.S. Average</i>	<i>71.3%</i>

Source: Indiana Fiscal Policy Institute

While Wisconsin ranks 21st among the states in the percentage of high school students entering college (41.1%), we unfortunately rank only 36th among the states in the percentage of our population 25 years old and older who have college degrees. For decades Wisconsin has been proud of its commitment to higher education, but an unusually large number of our graduates appear to be heading elsewhere to find suitable employment. Illinois, Michigan, Ohio, Kentucky and North Carolina are all retaining their college graduates at a higher rate than Wisconsin.

Most of the brain drain discussion has centered on the supply side of the issue. For the brain drain we have had a series of recommendations to improve the UW System in attracting more students. If that were the real problem, Wisconsin would not have its current brain drain circumstances. As a state, we have always been a leader in the number of college students. The UW ranks among the largest systems in the country despite the fact that our state is only average in population.

We urge new strategies on the demand side of the problem. For brain drain to disappear, the state must offer better jobs with higher incomes that are competitive with other states. We need a jobs strategy, not an education strategy. College kids are moving on to other places for a wide variety of reasons. Our task is to make Wisconsin strong enough to keep these young people here; and for that matter, attracting students from other states to Wisconsin. Our wage rates appear too low in certain industries and the image of our state appears to suffer by comparison. All of this makes it difficult to attract the young professional, particularly, young single people under age 25. Employers increasingly complain that it is difficult to recruit young, single workers, particularly in the Milwaukee area. We are losing them to Chicago, Minneapolis, and many other cities around the country.

This is also a particular problem with minority professionals. Recent work in Milwaukee has highlighted this problem and it is time to take action that will make our state more hospitable to minority professionals. The GMC currently has a Diversity Task Force working on this problem and it deserves a high priority in our community.

There are several ways to stimulate the demand side of the economy in Wisconsin to create more employment in key sectors. The first is to specifically target state policy to benefit Wisconsin based companies. The single factor corporate income tax proposal before the legislature is a good example.

We should also encourage state sponsored entities like the Investment Board, WARF and others to target Wisconsin companies when investment decisions or licensing transactions are determined. Most other states strategically favor home-based companies far more than Wisconsin, and our economic performance would indicate that we should do the same. We are encouraged by the recent "Buy Wisconsin" initiative announced by Governor McCallum and strongly urge more steps in this direction.

There are several other good ideas to reverse the brain drain problem:

1. Wisconsin companies should consider internships that are offered to university and technical college students.

We all know that internships often result in permanent placement by those students who participate. A large-scale internship program, administered in the private sector, would be a sensible start.

2. Wisconsin companies may not be recruiting at our state institutions at the level necessary to keep our best students in Wisconsin. A joint recruiting program should be created where employers join together in professional recruiting at various campuses throughout the state.
3. There may be some incentives that should be offered Wisconsin students who decide to make their careers in our state. The legislature should consider student loan forgiveness for those young people who attend Wisconsin colleges, but remain in the state for employment over a period of years.
4. We should also consider tax credits for employers who hire students from Wisconsin institutions. This would encourage Wisconsin employers to recruit at state institutions and change the out migration of college students. These steps are appropriate given the fact that

Wisconsin taxpayers have contributed and continue to support our UW System.

5. One recent encouraging development targeted at young professionals in Milwaukee is the formation of a new group that will provide a real network. The Young Professionals of Milwaukee, under the auspices of the Milwaukee Metropolitan Association of Commerce, is now underway and attracting hundreds of talented young people who will be future leaders of our region. This is a concrete step to deal with the brain drain problem.
6. Part of the brain drain problem may also relate to the low level of government employment. Most of us have seen the data that ranks Wisconsin at the bottom of the 50 states in the receipt of federal funds. These jobs tend to be higher paid than the average job in Wisconsin. A federal worker makes approximately \$45,000 per year compared to the average Wisconsin state worker who makes \$35,000 per year (and is even higher than the average private sector worker at \$29,000 per year). If

Wisconsin had an average number of federal civilian workers, it would add 31,000 good jobs to our state.

7. Wisconsin currently ranks 41st among the states in federal research and development funding. That is despite the high level of grants to our university system, particularly the Madison campus. We rank 43rd in federal aid to state and local government; we are 49th (almost dead last) in total federal funding per capita. A concerted effort that is serious and of high priority needs to be undertaken to reverse these dismal statistics. If we were able to reach the status of the average state, it would mean \$740 million to the Wisconsin economy.

8. There is no reason for Wisconsin to rank at the bottom in federal funds. It must be a high priority for our congressional delegation and our state government. Additional federal funds means higher paying jobs and a stronger economy. This is particularly noticeable in the Milwaukee metropolitan area. Currently, only 10.5% of Milwaukee employment is constituted by government employees (local, state and federal). The national

average is 15.7%. If we achieved the national average, Milwaukee's employment would grow by 45,000 workers—a sizable number worth the effort.

VI. Vibrant Downtown Milwaukee

Milwaukee needs to continue its efforts to build a vibrant downtown that is attractive to young professionals and recent college graduates who leave our state for other cities. As the state's commercial center, Milwaukee must build on its strengths in recruiting young people to area employers. The recent expansion to the Milwaukee Art Museum by Santiago Calatrava, the development of Miller Park, the new Harley Davidson Museum and the on-going success of Summerfest need to be marketed to those targeted young people who we need to grow our local economy.

The new Art Museum offers a unique opportunity to market Milwaukee and its downtown. The Calatrava will become an icon for the city that can be critical to our marketing efforts and to future tourism.

The current focus on downtown **residential development** will be key to fulfilling this strategy. And, the creation of a **sports and entertainment district** in downtown Milwaukee that encompasses the Grand Avenue, Midwest Express Convention Center, Arena, Auditorium, Bradley Center

and the new Harley Museum will certainly make a difference in attracting young people to our city.

It should be noted that high speed rail between Chicago and Milwaukee would also enhance metro Milwaukee as an attractive location, particularly for younger workers. Access to Chicago for Milwaukee residents and employers would give us the best of both cities and create a favorable economic development effect.

We also must create stronger economic development in the inner city of Milwaukee. It needs to be at the top of our economic agenda. The Greater Milwaukee Committee has joined forces with the Bader Foundation to initiate an exciting new project designed to bring about a stronger inner city. For too long, our policy toward the inner city has been one of public subsidy and government programs.

Recent work by well-known Professor Michael Porter of the Harvard Business School has suggested a new and more optimistic approach to rebuilding central city economies. The **Initiative for a Competitive Inner City (ICIC)** was created by Porter to work in U.S. cities to find market based approaches to economic development. There are advantages to business location in the central city (available workers, low cost real estate and access to customers, suppliers and transportation). Our task force

recommends the ICIC approach and the creation of a specific initiative in Milwaukee.

VII. The Public/Private Partnership

Local Government/Private Sector Economic Initiatives: Local governments in the Milwaukee region, through intergovernmental cooperation, must play a leadership role in bringing together the elected leaders and economic development staff to focus on economic development initiatives. Representatives of the private sector should actively participate and play a strategic role in helping to guide this initiative as a public/private partnership. The initiative should coordinate, guide and carefully focus the local government economic plans in the five county region. This partnership should define its mission as encouraging cooperation and support for meaningful job creation and economic development.

This public/private partnership should also play a strategic leadership role in providing resources, support and encouragement to the **TechStar** initiative. This partnership should communicate, cooperate and coordinate with TechStar concerning the selection and creation of new high tech businesses. Local governments in the five county region need to revamp, restructure and reprioritize their resource allocation, strategy and plan concerning regional economic development. The existing local government

programs need to be re-evaluated and new strategies and objectives developed.

Energy: Electric energy that is reliable and affordable is critical to Southeastern Wisconsin's economic progress. Electric energy must be there when we need it, it must be of high quality to meet the needs of today's digital age and it must be affordable for all consumers.

One notable proposal is *Power the Future*, a \$7 billion plan to produce 2,800 MW of new, in-state electric generation. This plan also includes improvements to existing power plants and upgrades to Wisconsin's electric distribution system. The latest emissions technology will exist at the new plants and conservation programs will be employed to the fullest extent. Conservation, renewable energy and environmental groups will continue to work together to develop the most effective ways to put investments to use.

Power the Future will be the largest construction project in the state's history. One thousand union jobs will be created during the construction of new power plants, with 200 permanent union operations positions available when the new facilities are complete. It also is the only plan that guarantees the new power plants will serve Wisconsin residents first and provide much needed fuel diversity.

The goal is continued prosperity and growth for Wisconsin. New electric generation is essential to the economic progress of Southeastern Wisconsin and our entire state.

Transportation (Milwaukee County General Mitchell International Airport): Milwaukee County General Mitchell International Airport needs an internal facelift and a more dynamic and expedited plan for growth and expansion. A healthy, successful and growing airport provides encouragement and support for robust economic development. Milwaukee County needs an expedited timetable to accomplish this objective.

Medical Business/Job Creation (Waukesha County Research Park): A public/private sector partnership needs to be formed to develop a Research Park linking Madison, Milwaukee and the public and private universities and industry leaders such as Waukesha-based GE Medical.

Milwaukee County Research Park: The Milwaukee County Research Park needs to refocus its emphasis to become what it was originally intended. All future development projects should be related to the development of information technology, biotechnology and/or other medical businesses. This initiative will require active participation of county officials, Medical College of Wisconsin, venture capitalists and area businesses. The Milwaukee County Research Park needs to be clearly

identified as an area of opportunity for entrepreneurs, venture capitalists and medical research people concerning the formation of information technology, biomedical and other medical business.

Medical College of Wisconsin Research/Business Development

Initiative: The public/private sector partnership also needs to be a catalyst to develop a plan involving the Medical College of Wisconsin and various venture capital organizations (public and private) to provide for the systematic creation of medical and information technology businesses. The Medical College of Wisconsin and venture capital firms need to join forces with local governments in the five-county region as well as the State of Wisconsin in advancing this medical business plan. Milwaukee County has land and financial capabilities, the Medical College has medical inventions with intellectual property protection, venture capitalists have funds to finance the ventures.

Doing Business with Local Government: Emphasis must be placed in the five county region on the retention of local businesses including incentives for local job creation. The public/private partnership needs to review, evaluate and emulate the successful models in other states, counties and municipal governments which provide **incentives for local job creation**

and retention of corporate headquarters through formal purchasing policies, workforce education and other value drive approaches.

Federal Funds: The public/private partnership needs to focus on raising the five county region to the national average in federal civilian employment, aid to local government and federal research and development. The partnership needs to meet with, develop and implement a plan with the Wisconsin Congressional Delegation to achieve this objective.

Implementation

This report and the others presented at the Economic Summit II should form the long-term economic agenda for Wisconsin and Milwaukee. It is time for an action plan that leads to the implementation of recommendations brought forward to last year's and this year's Economic Summits.

The GMC volunteers to be part of that action plan and contribute private sector support to the effort. Reports, white papers and studies have a good purpose and help form a strategic agenda. But, without implementation they simply join so many other documents sitting on our shelves.

Let's not allow that to happen after this Economic Summit!