

Wisconsin's Quiet Crisis

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WISCONSIN'S QUIET CRISIS

GEORGE LIGHTBOURN*

I. INTRODUCTION

Thank you for having me on your program today. I am going to discuss what I believe is the number one issue facing Wisconsin today. It is not taxes; it is not the state budget; it is not even Brett Favre's possible retirement. No, the number one issue facing Wisconsin is the economy of its largest city. Milwaukee's economy has weakened significantly over the past thirty years, a decline that has affected people throughout Wisconsin. It has most directly affected the citizens of the city, but it has also affected those who live in the suburbs, as well as those who live in Hayward and Stevens Point and all of the other cities and villages throughout Wisconsin.

The principle message of my remarks today is that it is in the best interest of all of Wisconsin to see that Milwaukee returns to its status as one of the great American cities.

I was asked to participate today largely because of the work Steve Agostini and I have done regarding the economic status of Milwaukee. Our study was published by the Wisconsin Policy Research Institute.¹

Before I get into the study, a disclaimer is in order. You will be hearing a number of tough statistics about Milwaukee and about its school children. This should not be interpreted as a broadside attack on any policies or actions of the city or the school district. The intention is to present the data to demonstrate that Milwaukee has serious problems and that it will take radical new ideas to change the circumstances.

* In his long career in public administration, George Lightbourn served as Secretary of the Wisconsin Department of Administration. He is a Senior Fellow at the Wisconsin Policy Research Institute and is co-author of the Wisconsin Policy Research Institute Report on the Milwaukee Labor Force. George Lightbourn delivered these remarks at the Marquette University Law School's conference, *Tomorrow's Children: Successful Education for Every Child*, on October 20, 2004.

1. George Lightbourn & Stephen Agostini, *Wisconsin's Quiet Crisis: Why Building a "New Economy" Matters to Wisconsin*, 17 POL'Y RES. INS. REP. 1 (2004).

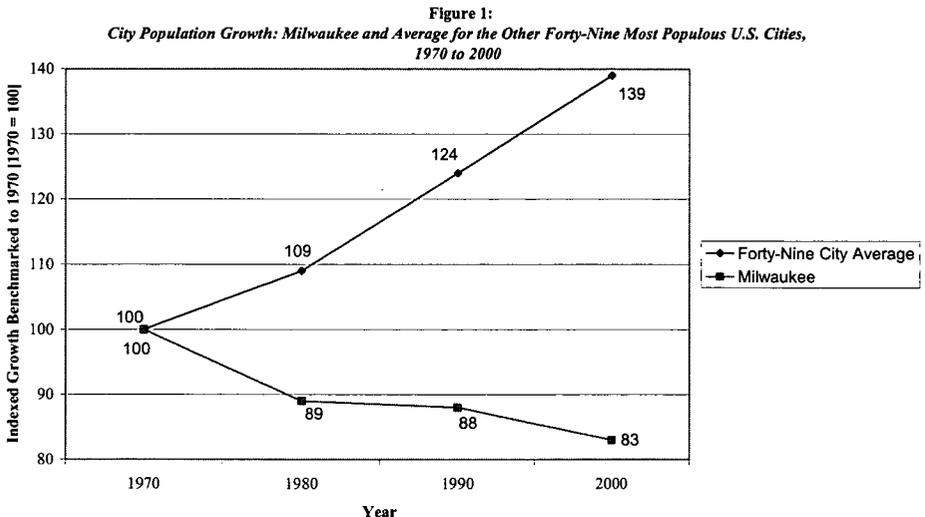
II. DOCUMENTING THE DECLINE

Studying the decline of a city is akin to studying plate tectonics. Year-to-year changes might seem insignificant, yet over decades unmistakable and significant trends emerge.

Our research looked at the largest fifty American cities over the thirty years between 1970 and 2000. It became clear to us that over time Milwaukee separated itself from the average American city in a very negative way.

A. Population

Population change provides a quick and telling impression of a community's vitality. It indicates how successful a community is in comparison to other places that compete with it for labor and jobs. Over time, people will vote with their feet. Since 1970, Milwaukee's population has experienced a 17% *decline*, while the other forty-nine cities saw an average *increase* of 39%.

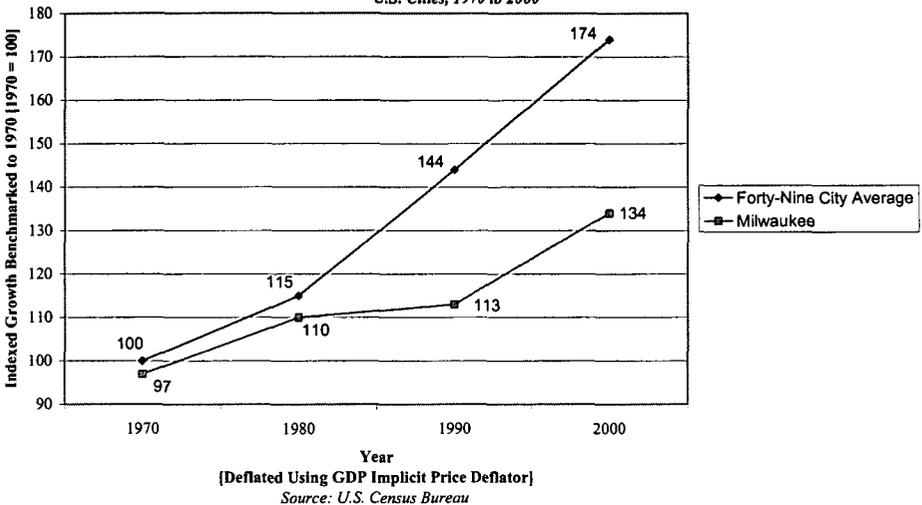


Sources: U.S. Census Bureau; Campbell Gibson, Population of the 100 Largest Cities and Other Urban Places in the United States: 1970 to 1990

B. Per Capita Income

In 1970, Milwaukee's economic performance was about the average for the U.S.'s largest cities. Thirty years later, Milwaukee was in a starkly different situation; by 2000 Milwaukee's real per capita income (indexed to 1970 using the real price deflator) stood at \$15,138, a full 23% below the average city per capita income. Milwaukee has become one of the seven poorest big cities in the nation.

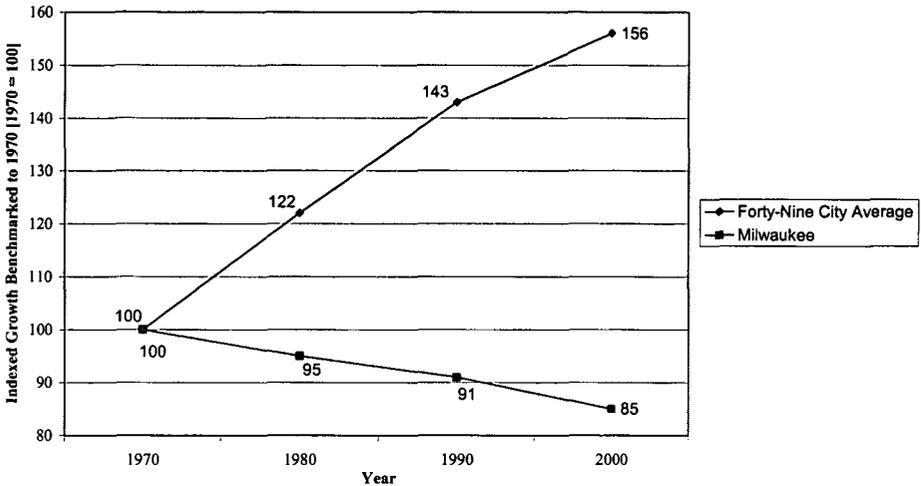
Figure 2:
Real City Per Capita Income Growth: Milwaukee and Average for the Other Forty-Nine Most Populous U.S. Cities, 1970 to 2000



C. Employment

The data show Milwaukee suffered a drop in employment. This decline in residential employment was particularly striking when compared with the experience of other large U.S. cities between 1970 and 2000: the average city *increased* residential employment by 56%, a sharp contrast to Milwaukee's 15% *decrease*. Only six cities lost a greater percentage of residential employment over this period—Detroit (41%), St. Louis (38%), Cleveland (37%), Baltimore (28%), Philadelphia (24%), and Washington, D.C. (22.4%).

Figure 3:
Residential Employment Growth, Milwaukee and the 49 Other Most Populous U.S. Cities, 1970 to 2000



Source: U.S. Department of Housing and Urban Development State of the Cities Data Systems

III. WHAT MAKES CITIES SUCCESSFUL?

For several years we have been bombarded with lectures on the “new economy.” The data clearly show the effect of the new economy on our cities. Cities that have recalibrated their economies to accommodate new-economy businesses are more prosperous. All cities avow an understanding of the need to move toward the new-economy model, yet some, like Milwaukee, have been slow to make the change. As a result, they are falling farther and farther behind.

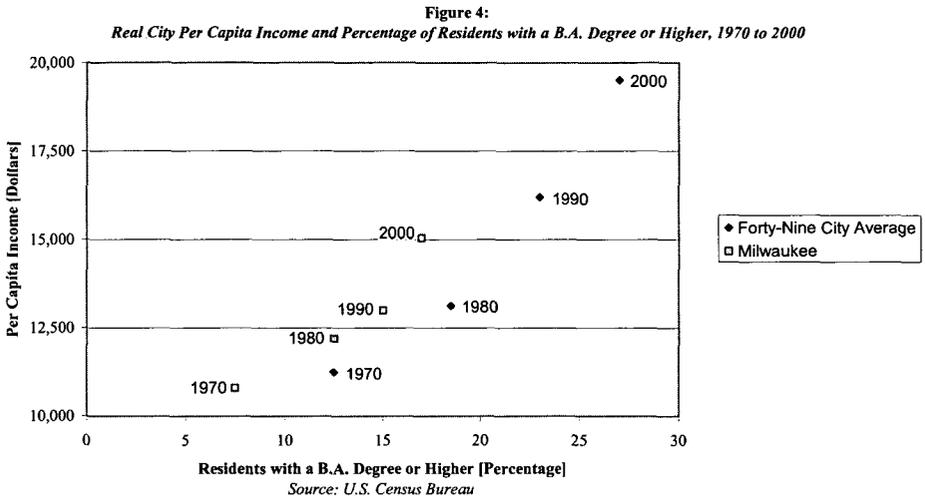
What is the driving force behind the changing landscape of American cities? According to recent research, the accumulation of knowledge, best exemplified by the level of education of residents (or human capital), is the primary driver of productivity increases in our cities. Economic growth occurs in places that possess highly educated residents. These are the residents most likely to employ technology to create the innovations that enhance productivity.

The role of formal education is especially significant in the new economy: The more educated the population, the more human capital exists in a city and the more prosperous the city will be. While cheap land and cheap labor once fueled urban growth, the education of citizens now is the principal predictor of growth. Cities with low human

capital continue to fall farther behind more educated cities.

Let us return to the analysis of the fifty largest cities over the period between 1970 and 2000. What were the factors that correlated with the success of a city? Was it race? No. Was it temperature? No. Certainly, its unemployment rate must be significant. No.

The analysis revealed two key factors. First, we found a strong relationship between a city's per capita income and the educational attainment of the city population. The figure below shows the relationship between the percent of the population holding a college degree or better, and the wealth of the city. The table below shows a very strong relationship, and the relationship is getting stronger over time.



The second thing we found was that those cities that were prosperous in the past will likely continue to be prosperous, and those that were declining are likely to continue their decline. This might suggest that little can be done to improve a city's economic status. We choose an alternative premise: that cities can alter their economic future but not without a very different approach to economic development—one that incorporates an understanding of the new thinking regarding economic growth.

IV. IMPACT ON THE SUBURBS AND BEYOND

Does the decline of Milwaukee's economy make a difference beyond Milwaukee's borders? The answer is yes. We found that a declining large-city economy significantly dampens the economic growth of its surrounding metropolitan area. Suburban America cannot reach its full potential with a decaying central city. Beyond that, we found that the entire state of Wisconsin, not just the metro-Milwaukee area, has a stake in the economic future of Milwaukee. These findings are based on an analysis of the economies surrounding the nation's fifty most populous cities.

Let me give you just one finding in this vein. During the thirty years that we studied, we found that the metro-Milwaukee share of the U.S. economy fell by 25%. When the U.S. economy expanded, it expanded much more in other places. Our estimate is that, if the metro-Milwaukee economy had maintained its share of the U.S. economy, it would be generating \$15.2 billion more in economic activity per year than was actually experienced in 2000. That lost income would have moved Wisconsin up in national rankings of income from twentieth to thirteenth. For those concerned with Wisconsin's state budget gap, the additional earnings would have translated into approximately \$675 million per year in additional state revenue. It is easy to see that if metro Milwaukee had attained a constant share of the expansion of the U.S. economy, today Wisconsin would be a wealthier state faced with very different issues.

V. MILWAUKEE SCHOOLS AND THE MILWAUKEE ECONOMY

In Milwaukee's golden age of manufacturing, a worker possessing a high school diploma or less could earn a middle class income in one of the many plants dotting the city landscape. Those days are gone. The sons, daughters, and grandchildren of yesterday's factory worker require decidedly more education and training to achieve today's middle class income. Earning is tied to learning—both learning in the school setting and learning in the job setting. Employers who pay middle class wages will not hire workers who have limited learning skills. Only in low-paying service-sector jobs are employers willing to settle for re-employing individuals who have received only minimal education.

How well are Milwaukee Public School ("MPS") children prepared for the higher standards of today's work place? The data reveal a

disturbing picture.

To measure student performance, we reviewed data from the standardized tests administered to all Wisconsin public school students in 2002 in grades four, eight, and ten. The tests measure proficiency in reading, language, math, science, and social studies.

On the eighth grade test, the percentage of MPS students scoring as proficient or better on math was a mere 10%. Stated differently, *90% of MPS eighth graders failed to demonstrate proficiency in math.* Science proficiency is similarly disappointing, with proficiency dropping to 19% among eighth graders and 13% among tenth graders. In every projection of worker skills, especially in the new economy, math and science skills are essential.

It should be clearly stated that in Milwaukee, there is a disturbing mismatch between the skills of the students and the needs of the economy.

In addition to low test results, there are other troubling indicators of the quality of tomorrow's workforce in Milwaukee. One is attendance. Truancy in MPS (as measured by an unexcused absence for all or part of five days or more during a semester) runs at 36% in elementary school, 54% in middle school, and 72% in high school. Clearly, attendance is seen as optional by many students in high school.

With such high truancy rates it follows that MPS would have low graduation rates. In the 2001-02 school year, 2889 MPS students dropped out of school. The graduation rate was 60% (compared to a statewide average of 91%). Although this rate is troubling, it represents a marked improvement of the 50% graduation rate seen as recently as 1996-97.

How do MPS students feel about higher education? Only 37% take the ACT test (compared to 57% statewide), and their scores are significantly lower.

Only 48% of MPS seniors responding to a survey indicated that they plan to attend either a four-year college or a two-year technical school.

These are a handful of the statistical clarion calls to the leaders of Milwaukee. We must not become resigned to poor performance from urban students. Such resignation would imply that future economic growth in Milwaukee would occur by working around the low performance of MPS students. It is hard to see how Milwaukee will ever reach the targets for residents with a B.A. degree or higher that we described above if MPS seniors cannot attain the basic credential required for college enrollment—a high school diploma.

The school system is only one of many factors affecting future economic growth. Yet, education is such a vital component of the equation for economic success, it is nearly impossible to imagine how Milwaukee might gain economic success without significantly improving the achievement of its public school students.

VI. SUMMARY

Perhaps the most troubling aspect of our study was the finding that Milwaukee's economy is likely to worsen rather than improve. The forces that led to the preceding thirty years of decline will prove inexorable without determined efforts to alter the current course.

A once-great manufacturing center, Milwaukee has adhered to an old measure to chart its economic health—the number of manufacturing jobs. While many other cities have evolved into centers of creativity and technology, Milwaukee remains diligent in searching for the next manufacturing plant or the next light industrial park that will yield the jobs that once made Milwaukee famous. This strategy is unlikely to yield the growth needed to create an economically prosperous Milwaukee.

Successful cities understand that radical new approaches to city development are required. Many of the strategies that have been successful elsewhere will require a fresh approach. Much of Milwaukee will need to be taken out of its comfort zone if the city is to succeed in addressing the problems we have documented.

It is reasonable to ask what a significant change in strategy would mean for the central city residents. Would they benefit from the change?

Matthew Drennan, an economist, found that “when the per capita income of a metropolitan area is higher, central city poverty rates will be lower.” Specifically he found that an increase in the metro Consumer Price Index would yield a drop in central city poverty. Just as the metro economy is linked to the success in the city, so too is the central city economy linked to the metro economy. Drennan observes:

During the first Clinton campaign for the presidency, in 1992, the desks at campaign headquarters had a sign saying, “It's the economy, stupid.” In light of this analysis, I think that all the nonprofit community development corporations working in inner cities and all

the municipal agencies charged with improving the life chances for the city poor should have the same sign in their offices.²

VII. REMEDIES—PART POLITICAL, PART PSYCHOLOGICAL, PART STATISTICAL

First the political—I have spent most of my career in Madison. All too often in state government there is a divide between Milwaukee and out-state interests. Issues affecting Milwaukee are seen as competing with the needs of the balance of Wisconsin. Sometimes this is manifest in a partisan split, and sometimes it is simply a rural-urban split. However, our study suggests state policy makers in Madison must understand that all of Wisconsin will benefit from efforts to improve Milwaukee's economy.

Second, the psychological—we found Milwaukee to be a city suffering from complacency, one that is quick to explain why its performance is lagging yet hesitant to move to a new model of development. The most common refrain we heard in doing our research was that “things aren't so bad.” We are not the first observers to note this attitude. Milwaukee historian John Gurda notes the same complacency. He observed that Milwaukee practiced “a learned conservatism [which] has created a social climate that can be toxic to new ideas. Milwaukeeans share an inherent complacency, a stubborn insistence that things are basically all right and don't need fixing until they are broken beyond repair.”³

Third, the statistics tell us that returning Milwaukee to its status as an *average* American city will require both urgency and patience. It is a long process; Milwaukee's economic recovery will take at least twenty years. Statistically Milwaukee needs to increase the percentage of its population with a college degree or better. The city is currently adding about 1800 college graduates to its ranks each year. If it continues at that pace, it should expect to remain 23% below average in per capita personal income.

To return to average, Milwaukee must *triple* the number of college graduates it adds to its population each year. Rather than adding 1800 per year, it must add 5300—every year for twenty years—just to return

2. MATTHEW P. DRENNAN, *THE INFORMATION ECONOMY AND AMERICAN CITIES* 129 (2002).

3. JOHN GURDA, *THE MAKING OF MILWAUKEE* 437 (1999).

to average. If it accomplishes that, the percentage of the population holding college degrees will increase from 18%, where it stands today, to 36% in twenty years. It is clear that such a change would make Milwaukee a fundamentally different city.

Can Milwaukee do this? Yes. Other cities have including Austin, Charlotte, Portland, Seattle, and a few others. Milwaukee must seek its own identity. But that identity must be built on a foundation of human capital.