

# TENTH DRAFT

## WISCONSIN PROSPERITY STRATEGY

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## INTRODUCTION

### Wisconsin Economy in Crisis — A Case for Transformation Through Innovation

The Wisconsin economy has suffered long-term erosion compared to other states, with negative consequences for the prosperity of its citizens. Its piece of the national economy started shrinking in the 1960s, and the slide accelerated over the last decade. It is unpleasant to deal with that reality, but transformation starts with an accurate assessment of where we are. The facts and numbers speak for themselves:

- The state's share of national Gross Domestic Product (GDP) dropped from 2.1 percent in 1963 to 1.7 percent in 2008. If Wisconsin had stayed at 2.1 percent, the state GDP would have been about \$300 billion in 2008 instead of the recorded \$240 billion.
- Per capita income, which had approached the national average in the 1990s, has dropped to 6 percent below average. That is a gap from the average of more than \$2,000 per person. Wisconsin ranked 48<sup>th</sup> in personal income growth over the last three decades.
- Wage levels have dropped to 86 percent of the U.S. average, putting us at about the same level as Alabama. We have become a low-wage state.
- Wisconsin is a donor state, getting back 86 cents on each tax dollar sent to the federal government. That results in a \$4 billion annual shortfall in dollars coming back to Wisconsin. Using a straightforward multiplier of 1.5, that spells a missing impact on the state's economy of \$6 billion a year.
- As measured with generally accepted accounting principles (GAAP), Wisconsin has in recent years incurred one of the largest deficits of all states on a per capita basis. Starting in a hole, the state budget for the 2011-2013 biennium will be extremely difficult to balance, especially since tax revenues are growing slowly.
- The fiscal crisis is reflected in the growth of Wisconsin debt, which grew from \$2.7 billion in 1990 to \$11.3 billion in 2009, giving the state one of the highest debt levels per capita in the country.
- Job growth and recovery over the last decade — before, during and after the Great Recession — have been sluggish, trailing the United States and neighboring states.

- Wisconsin is tainted with an often negative characterization of its competitiveness on taxes. That stems from a heavy reliance on the property tax and the individual income tax. That disadvantageous perception exists despite an average ranking when all sources of revenue, such as fees, are included.
- Other measures of sub-par performance over a long period include: minuscule levels of venture capital per capita; average numbers at best for business startups; a hemorrhage of jobs in manufacturing and business services; a net out-migration of college graduates and high earners and an in-migration of high school drop-outs; and a below average percentage of baccalaureates. A majority of people in the state believe that the state's "best and brightest" can find better careers elsewhere.

It is not surprising, then, that 57 percent of the state's population believes the state is on the "wrong track." Some of the dissatisfaction is rooted in the reality that state politics has become increasingly polarized and therefore incapable of balanced, bipartisan solutions. Nor is it surprising that recent polls also show job creation was by far the top concern of Wisconsin citizens, well above other major issues like environmental protection and health care.

### **Pockets of Strength**

The Wisconsin economic picture has pockets of strength. Reflecting the state's heavy investment in education at all levels, there is much to like in the make-up of its work force. The state's high school graduation rate of 82 percent ranks high; businesses laud the work ethic of the population; and the pool of skilled workers is deep, with more than 34 percent of adults holding at least a two-year degree.

The state is blessed with strong economic clusters that are anchored by market-leading companies. These clusters are the exporters that create much of the wealth for the state. Indeed, exports from Wisconsin that bring in outside dollars have generally trended upward in recent decades. The existing clusters include paper-making; advanced manufacturing; agri-business; medical devices; bio-medical technology; forest products; information technology, with strengths in medical and bio-informatics; printing; sensors, energy storage technologies, automation and controls; finance and insurance; and health care. These are the engines of our economy. In addition, there are emerging clusters such as fresh water technology in the M7 region, composites in the Seven Rivers Region, and wind turbine manufacturing in the NEW North Region.

Another bastion of strength is the high level of research and development. 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 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 BloodCenter of Wisconsin and Marquette University, collectively pull in more than \$250 million. The R&D labs create jobs on their own, and efforts have been launched to turn their work into commercial products and the new companies that create most of the nation's net new jobs.

Given the state's failing economic track record compared to other states, the conclusion can only be that the state has not taken advantage of its strengths to create sustained prosperity for its citizens. Wisconsin leaders have developed a broad range of programs that alleviate the debilitating effects of poverty and joblessness, but they have failed at a strategic level to create a blueprint for sustained economic success, for robust job creation.

The economic development efforts of the state have been largely traditional in nature: recruitment of business from other states and countries; retention of existing companies with subsidy packages in the face of threatened shifts to other states; incentives for real estate development; major taxpayer dollars for workforce training. Resources for recruiting and retention have been meager by comparison with other states, and successes have been limited. Workforce training works best when there are open jobs to be trained for, not when workers are pushed through an education program to an uncertain end game. At best, the traditional economic development approaches have proved insufficient for building a dynamic, high-pay job base. At worst, while well-intentioned, they are unfocused and non-strategic.

Because there is a clear need for fresh thinking on economic development — for an innovative strategy for Wisconsin — the Wisconsin Economic Summit Series was convened by a broad range of sponsors concerned about the future of the state. They convened the Summit because they operate on the premise that nothing works very well in a society, in a community, in a state without a strong job base. They call for a bias for bold action to deal with an economic crisis that has been decades in the making.

### **The Case for Bold Action**

Wisconsin's economy has been made and remade over time. Nineteenth century wheat fields gave way to modern dairy farms and cranberry bogs; territorial lead mines and turn-of-the-century logging camps eventually bowed to world-class manufacturing.

None of that happened without innovation and risk. Ingenious and often entrepreneurial people made bold decisions, in private and public settings, which kept Wisconsin prosperous in the face of changing markets and technologies.

Wisconsin can remake its economy yet again, this time to compete in a world where the challenges to its prosperity are more likely to come from Shanghai or Mumbai than Chicago or Minneapolis. As the state ends an election year in which a new governor and Legislature will be elected, the candidates for those public offices deserve to hear some of the best ideas available for — yet again — transforming Wisconsin's economy. Business, non-profit and education leaders need the same roadmap.

That transformation is well under way, in part because the markets wait for no one, and because Wisconsin, which represents only a fraction of the national and world economies, will be pulled along by external dynamics, like it or not. It is also under way because some bold choices have been made. Those choices in recent years include building on the state's research and development foundation, standing by investors who keep the faith in homegrown companies, and working to awaken an entrepreneurial culture that was dormant.

Those choices were made during a decade in which Wisconsin lost 160,000 jobs in manufacturing, a shock wave that reverberates through the state to this day. Economists believe three-quarters of those jobs will never return. Manufacturing will still be there, production will keep growing, but like the long-time productivity improvements in agriculture, it will take far fewer people to make products. What 1,000 factory workers could make in 1950 can now be made by fewer than 200. Output increased six-fold in those 60 years. That trend of ever-greater productivity shows no sign of tapering. Further, we have competitors; one factory alone in China employs 300,000 workers, three-fifths of the manufacturing jobs in this state.

To prosper anew, and to protect its historic quality of life, Wisconsin must champion emerging industry sectors, as well as the physical, governmental and educational infrastructures that will support them.

The state must nurture a spirit of innovation in business, in education, which provides much of Wisconsin's "human capital," in state and local government, in health care and in its infrastructure for energy, telecommunications and transportation. It must align its priorities with a compelling strategy for the economy.

The recommendations that follow come from an inclusive, iterative process that epitomizes the Wisconsin Idea. It is a distillation of the best thinking of many of its citizens. The Wisconsin Prosperity Strategy represents an effort to bring forth proven concepts and bold initiatives that will build upon Wisconsin's historic reputation for major reforms, for innovation in public and private domains.

## **INNOVATIVE ECONOMY**

### **1. Leverage Strategic Investments to Spur Wisconsin's Competitiveness in Global, Innovation Economy**

There is precedent in Wisconsin and elsewhere for large-scale investment in strategic sectors of the economy. The Bio-Star investment from private and public sources in the bio-technology cluster at the University of Wisconsin-Madison has been estimated at \$750 million. Ohio is leading all states with its Third Frontier initiative, for which its voters approved \$2.3 billion in bonding for investments in technology and innovation.

The Wisconsin Prosperity Strategy must be equally bold, so we recommend:

- Create a \$1 billion Wisconsin Prosperity Fund for matching investments strictly focused on innovative technologies and start-up, high growth companies.
- With approval of the voters by referendum for the fund, tap bonding power in state agencies such as the Wisconsin Housing and Economic Development Authority.
- Deploy the fund's grants and investments on a regional basis, ala Ohio.

- Select projects/grants using rigorous, objective, professional evaluations of proposals. Use a “lock box” concept so the funds can never be used for other purposes.
- Establish strict accountability and hard metrics to evaluate outcomes.
- Target bets at current and emerging clusters where Wisconsin has an advantage in a global marketplace.
- Ask the State of Wisconsin Investment Board (SWIB), the second largest repository of financial assets in the state, to aggressively pursue the creation of a “catalyst portfolio” to attract top tier venture companies that include investments in the Upper Midwest, including Wisconsin.
- Encourage foundations in the state to make grants to evergreen early-stage funds to stimulate start-ups.
- Ask the Wisconsin Alumni Research Foundation to expand its start-up initiative across the state.
- Allow utilities more flexibility in funding economic development. Employ “lock box” concept so such funds are used solely for job creation activities.

## **2. Create Entrepreneurial Ecosystem and Pools of Early-Stage Capital Across State to Accelerate New Ventures**

Recent research by the Kauffman Foundation has established that all net new jobs in America are created by young companies, defined as those less than five years old. That matches the history of Wisconsin, where all our great employers are home-grown. Look at the explosive growth in the state of start-ups like QuadGraphics, which has grown to 6,000 jobs in the state and more than 25,000 overall; Epic Systems, which has grown to about 4,000 employees in the field of medical informatics; and Direct Supply, a supply-chain management company that employs nearly 1,000. These kinds of marvelous start-ups are episodic in Wisconsin. They need to become systemic.

If new ventures create all the jobs, and other strategies have proven insufficient, the strategy of launching new high-growth companies stands out as a potential winner. Wisconsin is chock-full of innovative, highly educated, worldly, hard-working people who can launch venture companies. Let’s give them the support they deserve. Let’s make them the champions of the new economy. In short, hug our entrepreneurs.

Entrepreneurs need two main resources, beyond their own talents and creativity, to start companies on a systematic basis: capital to get started and a support structure that helps them develop their business plans.

We recommend these bold initiatives:

- Make and brand Wisconsin as the best state for innovation, for starting a company.

- Expand greatly the mentor programs proving effective in Madison (Merlin's Mentors) and M7 (BizStarts Mentors). The mentors are seasoned, successful entrepreneurs who become an unofficial board of directors for entrepreneurs in the launch process.
- Continue the evolution of the statewide network of angel investment groups to a network that includes more early-stage funds. Pension or public funds, such as SWIB or the proposed Wisconsin Prosperity Fund, could provide side-by-side investments to leverage the private dollars. Funds such as the NEW Capital Fund, DaneVest Capital, Kegonsa Capital Fund and the Phenomonelle Angels can move much faster on deals than most angel networks.
- Keep about one-third of the early-stage funds in reserve for second and third rounds of funding, as fast-growing companies run out of working capital.
- Track performance of all funds doing start-ups in Wisconsin and the level of start-up activity across the state, as has been done in recent years by The Wisconsin Portfolio publication of the Wisconsin Angel Network.
- Set goals of \$50 million per year in expansion, seed and venture funding in the state by 2015 and \$100 million annually by 2020. Tap foundations, pension funds, corporations, legacy entrepreneurs, out-of-state venture funds and angel investors to accelerate this capital formation.
- Launch 500 high growth start-ups across state by 2020, including 100 from university spin-offs. Draw from unexploited intellectual property in corporations.
- Amplify advertising and public relations initiatives to promote entrepreneurial culture across the state, following the lead of BizStarts Buzz in the M7 Region.
- Extend BizStarts Milwaukee web site to other regions of the state.
- Extend Governor's Business Plan Contest to include regional contests as feeders.
- Push entrepreneurship education deeper and wider in all schools, colleges and universities via partnerships such as BizStarts College Consortium, Junior Achievement, and Project Lead the Way.
- Place Entrepreneurs in Residence on public and private campuses.
- Create regional banks of CEOs and managers available for new ventures.
- Restore Wisconsin capital gains exemption to 60 percent.
- Promote and expand Act 255 credits for early stage investors.

### **3. Promote Driver, Export Industry Clusters Through Public-Private Partnerships**

That the modern economy works in clusters was soundly endorsed as a concept in the four Wisconsin Economic Summits of 2000-2003. But that insight never found its way into economic development practice at the state level. It was never implemented in a strategic way.

Rather, state leaders chose to look at the state as a collection of political regions. Regional economic development organizations sprang up, and they stepped in where the state had failed to go. They identified the clusters in their respective regions and began paying attention to the ingredients necessary to allow the clusters to survive, grow and flourish. But the regional efforts need to be reinforced at the state level.

Clusters are a collection of players in a given export sector, such as papermaking or medical devices. They create wealth by bringing in dollars from exports. The actors include market leading companies, educators and researchers in the field, government, service providers who know the space, like lawyers and accountants, vendors and entrepreneurs doing start-ups with innovations inside the cluster. It is important to note that without a market-leading company there is no cluster. As one cluster proponent said: "Hug a big company today."

Concentration on the clusters is critical, because they drive the state's economy. Other businesses, such as construction and retail, are important, but they are supportive and derivative of the exporting clusters.

A perfect example of how an existing cluster can be nourished by the right mix of resources brought to bear is the state's cheese industry. As Wisconsin's leadership in that sector began to slip, scientists and educators at the Center for Dairy Research at the University of Wisconsin-Madison in 1994 stepped in to offer a Master Cheesemaker program that helped the state's long-time cheese-makers to upgrade to specialty cheeses. Those companies have dominated the world cheese competitions with their new offerings, and new health has been infused into the cluster all the way along the supply chain from farms to retail. Forty-four cheese products carry its prestigious Master Mark designation.

To execute a cluster strategy in Wisconsin, we recommend these bold departures:

- Create a policy council for each existing cluster, selected from the exporting industry, the governor's cabinet, the UW System and private colleges, the Wisconsin Technical College System, supporting service sector, an entrepreneur and a venture capitalist in the field.
- Charge the councils with developing a supportive strategy for each existing cluster.
- Develop metrics to judge the success of each cluster.
- Promote the fast-growing Business Services sector that underpins all clusters.
- Support growth of emerging "knowledge clusters" that can attract and retain high-skilled workers, such as freshwater technology in M7 region, composites



in the Seven Rivers Region and wind energy systems in NEW North. Set up councils for them as well.

- Without lowering standards, align and streamline regulations to promote growth of clusters in the state.
- Eliminate tax irritants in each cluster to improve ease of doing business in Wisconsin without major loss of tax revenue.
- Use Green Tier regulatory platform to develop compacts that encompass environmental advances and economic growth.
- Promote exports and competitiveness in global economy.
- Attract foreign investment to expand business in key clusters.

#### **4. Capitalize on State's R&D Strength Through Accelerated Technology Transfer**

The 2009 Research to Jobs Task Force concluded that huge potential exists in Wisconsin for generating jobs from university R&D. More than 200 companies have spun out of the University of Wisconsin-Madison over the last 25 years, and the prosperous Dane County economy shows the fruits of that success. The intellectual horsepower at the other 45 public and private college campuses needs to be similarly harnessed and tied to the development of the state's clusters.

Following the recent creation of the University of Wisconsin-Milwaukee Research Foundation, that campus is poised to accelerate patent, licensing and start-up activities. This is a recent model for what it takes to improve the transfer of technology from the lab to the marketplace. There, corporate R&D is being married to university R&D, with initial catalyst funds coming from market-leading corporations.

Academic R&D creates jobs of its own in its laboratories, but the real pay-off in jobs comes when companies are created. Further, the companies doing the best in the global economy are those that come up with innovations through technology breakthroughs. Their new products and processes give them a competitive advantage for a period of time.

States must lead with their strengths, and leading academic R&D has long been a hallmark of Wisconsin. The Thrive and M7 Regions are home to more than \$1 billion in annual R&D expenditures. The payoffs for the economy of the state have lagged, but it is a logical strategy to leverage that strength for the prosperity of the citizens of Wisconsin.

Therefore, we recommend these initiatives:

- Inculcate a statewide ethos, led by WARF, UWRF and WiSys, to systematically turn patents into start-up companies.
- Encourage more research on UW campuses through implementation of strategies recommended by the Research to Jobs Task Force, including faculty career advancements for discoveries, more release time and grants for faculty members, student internships, and credits to students for research activities.

- Inventory R&D in state, public and private, per Wisconsin Technology Council report: “The Economic Value of Academic R&D in Wisconsin.”
- From a strong academic R&D base in Madison, a growing base in Milwaukee and pockets of R&D excellence in Marshfield and comprehensive UW System campuses, compete for more federal dollars.
- Create additional interdisciplinary technology centers in partnerships between universities and with private companies. Examples include the existing UW-Madison Energy Institute, the new Wisconsin Energy Research Consortium, the Wisconsin Bioenergy Initiative, Wisconsin Institutes for Discovery, the emerging technology centers at UW System comprehensive campuses.
- Create infrastructure to win more SBIR awards.
- Expand the Wisconsin Discovery Portal database, which allows easier access to university intellectual property.
- Complete Freshwater Technology and Innovation campuses at UW-Milwaukee.
- Continue to remove impediments to college faculty engaging in start-up companies, including leaves up to five years.

## INNOVATIVE EDUCATION

### 5. Align Investments in Education with Strategic Direction of Economy

No economic development strategy can move forward without a complete and total connection between the private sector and the educational institutions of the state. Conversely, an education and training strategy alone doesn't cut it. To retain graduates, there have to be well-paying careers at the end of the education process. Thus, job creation strategies need to be symbiotic with education strategies.

Every Wisconsin commission that has looked at workforce issues has stressed alignment of investments in education and training with investments in economic development. The Wisconsin Prosperity Strategy is no different in that regard, but the bold economic initiatives to regain the state's competitiveness require updates of past education strategies. The end game has to be better value from education: better-prepared graduates at a better price.

In that vein, we recommend these initiatives:

A. Raise percentage of four-year degree holders in state to a level that puts Wisconsin in the top tier of states, based on the number of working adults who have at least a baccalaureate degree.

- Preserve Wisconsin's tradition of maintaining affordability and access to college through targeted investments that provide adequate capacity at college campuses and adequate amounts of need-based financial aid for students.

- Convert some of the state's high concentration of associate degrees to baccalaureates by supporting innovative collaborations among UW and WTCS campuses that provide flexible opportunities for citizens to complete their four-year and advanced degrees.
- Continue push for seamless, collaborative education, so comparable college credits can transfer and exchange easily between all educational institutions in the state.
- Stress employment-based learning on all college, university and technical college campuses so Wisconsin's workforce is comprised of people with both liberal arts and technical knowledge to meet changing workplace needs. Ensure that all college graduates can think beyond their own disciplines, solve problems creatively, communicate effectively, interact with people from diverse backgrounds across a global economy and act as responsible citizens.
- Increase on-line and distance learning opportunities so place-bound and employed students can earn degrees. Give colleges flexibility on creating and managing new models for delivering education and raising funds for them.
- Promote and facilitate graduation in three years and with four-year guaranteed degree programs.

B. Encourage educational institutions to more closely align degree offerings and academic research with export driver industries in Wisconsin's regions.

- Engage UW System, private colleges and universities, and Wisconsin Technical College System in continued development of state's "knowledge economy" through industry partnerships. Continue investing in research capacity at UW-Madison, while building more robust research capabilities at UW-Milwaukee and the 11 regional comprehensive campuses.
- Work to attract more out-of-state and foreign students to Wisconsin colleges and universities. Their full tuition dollars help to subsidize more seats for in-state students. These out-of-state students tend to earn degrees, enter the state's workforce and combat the "brain drain" phenomenon. By positioning UW System campuses as destinations of choice, Wisconsin can "export" higher education by bringing in more outside dollars. Foreign students connect us to the global market and enrich the educational experiences of Wisconsin residents.
- Streamline the process for commercializing university research so new discoveries can more quickly translate into jobs.
- Create a broad program of internships, apprenticeships and school/work experiences for Wisconsin high school and college students.

C. Provide UW System with greater flexibility to adopt modern business practices that encourage innovation and make the best use of scarce dollars. In purchasing, contracting, construction, and other areas, allow UW management to drive overhead down and productivity up.

- Learn from flexible higher education management models adopted in states like Virginia, Michigan and Oregon.
- Enact legislative and administrative changes to allow UW System to more quickly adapt academic offerings, market-based tuition rates, financial aid programs and administrative policies to the economic strategy of the state.
- Maintain university accountability and transparency without stifling innovation.

#### D. Enhance state's pre-college pipeline.

- Increase K-12 investment in science, technology, engineering and mathematics through programs such as Project Lead the Way, Science Olympiad and FIRST Robotics.
- Increase entrepreneurial literacy in K-12 schools through programs such as Junior Achievement and the Wisconsin-based National Institute of Economic and Financial Literacy, following the state superintendent's guidelines for entrepreneurship education.
- Promote and fund K-12 advanced placement courses and credits to accelerate college educations.
- Promote offerings to prepare high school and college students for a global economy, such as courses in foreign languages spoken in nations where America does a lot of business (Spanish, Mandarin, Japanese); courses in foreign geography and cultures; study abroad experiences.
- Implement assessment of progress of K-12 students in core subjects by use of testing tools that provide quick feedback to teachers and parents, that allow test results to be readily comparable to other states and that give students specific and meaningful information about how their skills and knowledge equip them for the workplace and higher education.

## INNOVATIVE GOVERNANCE

### 6. Restore Fiscal Stability Through Budget and Debt Disciplines

By any measure, Wisconsin public finances at the state and local levels are severely stressed. A great deal of the stress has been caused by the decades-long fall-off in the relative performance of the state's economy. If the state were operating at an average level among the 50 states for growth in jobs, personal income, wages and gross domestic product, most of the deficit at the state level would be erased. That is also true of budgets for municipal and school district budgets, because they are heavily dependent on aids and shared revenues from the state budget, and those aids have been reduced in response to state deficits.

A more effective economic strategy could improve the top line for governments. Greater tax revenues would flow from a more robust, faster-growing economy. In addition, government with

its fiscal house in order could contribute to that stronger economy. If government runs at a surplus, it needs fewer new taxes, it incurs less interest as debt is lowered, and there is less crowding out of private spending and investment. Further, there would be money available for stimulus investments.

The pattern of structural deficits at the end of budget periods, of even larger GAAP deficits and of growing state indebtedness has been in place for a decade. There is consensus in the state for getting rid of the red ink.

We recommend these fundamental fiscal reforms:

- Spell out FY2009-2011 structural deficit, FY2009-2011 GAAP deficit and pending FY2011-2013 deficit.
- Reduce GAAP deficit in each biennial budget and attain balance by 2023-25 budget.
- Make education, economic development and infrastructure investments within context of fiscal stability.
- Establish a more competitive state tax mix that puts a greater reliance on consumption taxes and fees and addresses the over-reliance on the property tax and personal income tax.
- Shift the balance of government spending from poverty relief to initiatives that create jobs, put people back to work and eliminate poverty. A safety net for the state's most vulnerable populations is necessary, but job growth that creates more demand for workers than the supply would greatly reduce the drain of joblessness on public programs. The debt-laden state unemployment program is a prime example.

## **7. Create Lean Government Commission**

Lean disciplines have transformed the world of manufacturing over the last three decades since Toyota pioneered them. Cars last twice as long; real prices of manufactured goods have risen far less than other elements in the cost of living; inventories are a fraction of what they were in pre-lean days. So profound was the lean revolution that that concept of operating an enterprise has been adopted by service industries and, of late, by health care providers. The results in health care are just as stunning as in manufacturing. Infections have been eliminated from some operating rooms; medical errors have been dramatically reduced; same-day appointments are available, and costs and prices have been lowered by 30 percent to 40 percent in lean health care organizations.

If those large segments of our society can be transformed by "lean" thinking, why not state and local government? Lean disciplines apply to any organization. Government exists to serve the people, which is entirely consistent with the lean mantra that every action in an organization must be in tune with the voice of the customer.

The last commission to examine efficiency in government was the SAVE Commission in 1995. The Kellett Commission that reinvented state government agencies and set up the cabinet form of government was in the mid-1960s. It's time for another commission to examine the ever-growing array of government agencies, services, programs and management tools. A lean lens would provide a set of fresh insights on how to organize and operate government entities at both the state and local levels. It could introduce profound innovations into government services — fitting in a state known for its governmental innovations.

With that background, we make these recommendations:

- Governor appoints high-powered commission to consolidate and improve state and local government processes, to save money and improve outcomes for customers, namely the citizens of the state.
- Make commission term indefinite, because a lean journey is deliberate and never ending.
- Benchmark on lean organizations that have transformed manufacturing and health care.
- Choose preponderance of commission members from executives with lean experience or experts in the field.
- Hire lean experts as staff for commission.
- Incentivize state departments, university system and local units of government, including school districts, to follow commission proposals and recommendations through the addition or withdrawal of state tax dollars.

## **8. Charter an Independent Job Creation Board to Replace Department of Commerce**

The Department of Commerce, which for a dozen years has experienced a frequent turnover of leadership, has practiced traditional economic development through a myriad of programs. Its latest plan had some 300 line items of economic activities. The agency is responsible for many tasks that have little to do with job creation, which should rank as its top priority. The state's intractable decline in comparative economic performance makes a compelling case for a new form of governance for restoring the state's job base.

The job base of the state could be viewed as its most important asset, at least on a par with its natural resources and its public university system. Wisconsin has regarded its physical and university assets so highly that they are managed by independent boards that are appointed by the governor. Other states have viewed job creation as of the utmost importance and, accordingly, have established agencies whose sole purpose is to enrich the job base.

An independent Job Creation Board could rise above political considerations that currently enter into economic development decisions. It would be more strategic in nature, with a longer term outlook than political cycles produce.

We recommend this bold departure in governance:

- Charter an independent board to oversee state job creation strategy and initiatives.
- Put preponderance of private sector job creators on board, including several entrepreneurs. Include also cluster council leaders, university system president, technical college system president, top union leader and prominent labor economist.
- Give board flexibility to act on most policy matters.
- Governor appoints members; legislature confirms.
- Give oversight on economic development bond fund through board.
- Send DOC activities other than job creation to other departments.
- Require review by board on all regulations affecting business climate.
- Select clusters for development focus as recommended by regional development groups. Use regional organizations as conduits for state investments and for policy deployment.

## **9. Capture Greater Share of Federal Dollars**

Wisconsin has ranked near the bottom of all states for return of federal dollars for decades. That inability to gain our fair share of federal spending has enormous consequences for the prosperity of the state and for its fiscal soundness. Indeed, if Wisconsin won \$1 of federal spending for each \$1 of taxes it sends to Washington, D.C., instead of the 86 cents we get back, much of the state's budget deficit would disappear.

The predominant rationale for the failure in recent decades of our Congressional delegations to reverse our status as a donor state has been they are acting as fiscal watchdogs. That high-minded posture has some merit, but so does a more pragmatic philosophy. Why not go after projects of merit, such as the positive example of the recent expansion in Madison of the USDA Forestry Products Lab? Why shouldn't Wisconsin get the same level of reimbursements for Medicare that Florida gets? Our delegation succeeded in reworking the formulas for the dispensation of highway funds; we need to do as well elsewhere.

The argument for Wisconsin donating to less well-off states might have had some merit earlier in our history, but not at this juncture with our own economy in crisis. Wisconsin's economy needs the federal dollars as much as any other state.

To reverse this long-term disadvantage, we recommend:

- Create major office in Washington, D.C., to work Congress and Executive branch for more Wisconsin-friendly allocations and formulas for federal programs.
- Lead Midwest coalition to improve formulas and allocations.

- Bring more federal dollars to Wisconsin by lobbying for higher Medicare and Medicaid payments to hospitals and doctors that demonstrate measurable improvements in quality and efficiency.
- Pull into the state more federal research institutions, such as the existing U.S. Forest Laboratory, the U.S. Wildlife Health Laboratory and the Great Lakes Bioenergy Research Center in Madison.
- Lobby for and support defense suppliers such as Oshkosh Corp., Astronautics and Marinette Marine.
- Include a procurement assistance shop in state's D.C. office.
- Expand state's strong position in landing research dollars for state colleges and universities, as well as education grants for all levels of education.
- Pull in significant share of Great Lakes restoration dollars.
- Support continuing efforts of the Wisconsin Security Research Consortium to attract classified research dollars.

## **10. Invest Strategically in State's Infrastructure**

Because additions to the state's infrastructure are tangible, visible, and sometimes intrusive for communities and the environment, and carry a big number on the front end of projects, they are often controversial. The capital expenditures are up front, and the payoffs on the investment are down the road. A long-term perspective must be maintained to understand and benefit from these investments.

Wisconsin's highways lead the Midwest in smoothness of the paving and are above average nationally. That competitive advantage cannot be lost.

The coalition of sponsors of the Wisconsin Prosperity Strategy support major and consistent investments in the state's physical infrastructure.

We recommend:

- Invest in a more balanced generation portfolio, including nuclear, wind and solar power, to satisfy non-carbon energy mandates.
- Expand and improve high-speed Internet, broadband and cell phone access across all areas of state in line with acceptable cost/benefit ratios.
- Segregate fuel tax revenues for road and transit construction.
- Align developing rail strategies with state's economic development strategy, so players in leading clusters are connected to each other, such as universities and market-leading companies. Use rail strategies to connect Wisconsin to Chicago and Twin Cities economies.



- Develop transmission systems to move power from outside state and across state.
- Develop accounting methods to properly value and track the state's trove of natural, physical assets.

## **11. Adopt Successful Consumer and Market-Driven Reforms in Delivery of Health Care in Public Sector Plans**

Health care benefits are a significant cost of doing business for both the private and public sectors in Wisconsin. The State of Wisconsin spends more than \$3 billion of GPR dollars on health care at the state and local levels; and those outlays are increasing rapidly every year. The public plans usually cost two or three times per life what equivalent plans cost in the private sector, where significant reforms have been implemented to rein in run-away costs. Compounding the cost escalation, one in five Wisconsinites are now provided health care under the Medicaid program and its Wisconsin extension, BadgerCare.

Many of the pioneering innovations in the delivery of health care have been developed in Wisconsin. They have been rigorously measured and, in some cases, audited. These reforms are proven. Several counties have adopted consumer-driven reforms, and major savings have followed.

Accordingly, we recommend that the state:

- Emphasize primary care in delivery of health care, including prevention, wellness and chronic disease management. Costs can be reduced to one-third below the national average with primary care in the forefront of the delivery model.
- Keep employees engaged in their health-care decisions and cognizant of the value of health-care benefits by requiring appropriate and targeted cost sharing. Offset deductibles and co-insurance with personal health accounts contributed by government employers.
- Realign how we reimburse health-care providers by paying for health-care services based on quality, efficiency, cost effectiveness and service rather than volume. Changing to value-based purchasing of health care is the single most transformational reform we can pursue.
- Information is crucial to all participants in our health-care system. Assure that the new health-care transparency law (Wisconsin Act 146) is implemented effectively and on time.
- Follow the lead of Appleton's ThedaCare and Gunderson Lutheran Health Care on introducing lean disciplines to health care.

## 12. Report Card/Metrics for Innovation Strategy Success

- Create 500 high-growth start-ups across state by 2020, defined as those that export, innovate and attract outside investor capital. The goal for start-ups from university research should be 100 of the 500.
- Attract \$50 million per year in outside investor capital by 2015 and \$100 million per year by 2020.
- Raise level of academic R&D to \$1.5 billion per year across the state.
- Create high-powered council for each major and emerging cluster in state, with cabinet level representation.
- Charter job creation board to govern state's economic development strategy.
- Increase baccalaureate percentage to 30 percent from current 25 percent by 2020.
- Restore state to GAAP-balanced budget by 2023-25 biennium through reductions in deficit in each two-year budget over next decade.
- Achieve "Top 10" ranking as best state for 1) Starting a business and 2) Expanding a business.
- Without dropping standards, install fastest permitting process in world.
- Set five-year payback as goal for proposed bond issue for economic development and job creation subsidies, as measured by new state revenues from new companies and new job holders.
- Develop metric for degree of alignment of post-secondary graduates with state's economic strategy.

### CALL FOR ACTION

The concepts and recommendations in the Wisconsin Prosperity Strategy are distilled from the findings of past commissions, summits, white papers and current agendas of organizations involved in economic development. Much of the state's best thinking on global economic dynamics is captured in this recommended strategy.

Further, it has been endorsed by a long list of major stakeholders in the state. They recognize that Wisconsin's economy is in crisis and that bold ideas and action are imperative.

We, the signers of this document, call for a close examination and near-term implementation of this strategy. We ask action and execution of leaders in business, education, labor and non-profit organizations. The citizens of the state deserve leadership that restores the economic prosperity that contributes to a high standard of living and a fulfilling quality of life.

The Wisconsin Prosperity Strategy should become a guiding roadmap that is updated annually by a new oversight organization that is a successor to the summit steering committee. Grades should be handed out annually on progress against this strategy, based on our firm belief that the citizens of the state deserve accountable leadership that restores the historic economic prosperity of the state.

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